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Zhou Hei Ya International Holdings Company Limited

周黑鴨國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1458)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2022**

FINANCIAL HIGHLIGHTS

	For the Year Ended December 31,		Year-on-Year Change
	2022	2021	
	RMB'000	RMB'000	%
Revenue	2,343,353	2,869,963	(18.3)
Gross profit	1,289,484	1,658,393	(22.2)
Profit before tax	54,731	450,990	(87.9)
Profit for the year attributable to owners of the Company	25,283	342,424	(92.6)

OPERATIONAL HIGHLIGHTS

The table below sets forth certain key operational information of the Group's self-operated and franchised retail store network for the years indicated.

	Year Ended December 31,	
	2022	2021
Total number of retail stores	3,429	2,781
Total sales volume (tons)	27,789	35,259
Average spending per purchase order (RMB)	57.90	57.80

The following table sets forth the revenue contribution in terms of the Group's main categories for the years indicated.

	Year Ended December 31,			
	2022		2021	
	RMB'000	%	RMB'000	%
Ducks and duck part products	1,812,346	77.3	2,415,223	84.2
Other products ⁽¹⁾	497,399	21.2	427,139	14.9
Franchise fees ⁽²⁾	33,608	1.5	27,601	0.9
Total	<u>2,343,353</u>	<u>100.0</u>	<u>2,869,963</u>	<u>100.0</u>

(1) Other products mainly include braised red meat, braised vegetable products, other braised poultry and aquatic food products.

(2) Include revenue generated from franchisees in connection with upfront franchise fees and brand royalty fees, and exclude revenue from sales of products to franchisees.

The following table sets forth the revenue contribution by the Group’s sales channels for the years indicated.

	Year Ended December 31,			
	2022		2021	
	RMB’000	%	RMB’000	%
Self-operated retail stores ⁽¹⁾	1,155,446	49.3	1,643,240	57.3
Online channels	417,366	17.8	549,084	19.1
Franchisees ⁽²⁾	692,812	29.6	591,619	20.6
Others ⁽³⁾	77,729	3.3	86,020	3.0
Total	<u>2,343,353</u>	<u>100.0</u>	<u>2,869,963</u>	<u>100.0</u>

(1) Include revenue derived from online ordering and delivery services, products sold are typically picked up at the designated retail stores. Revenue derived from online ordering and delivery services accounted for approximately 29.4% and 22.6% of the revenue from self-operated retail stores in 2022 and 2021, respectively.

(2) Primarily include revenue generated from franchisees in connection with sales of products, upfront franchise fees and brand royalty fees.

(3) Primarily include revenue generated from distributors.

FINAL DIVIDEND

The Board did not recommend the distribution of a final dividend for the year ended December 31, 2022.

The board (the “**Board**”) of directors (the “**Directors**”) of Zhou Hei Ya International Holdings Company Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended December 31, 2022. The annual results have been prepared in accordance with Hong Kong Financial Reporting Standards (the “**HKFRSs**”), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (the “**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). In addition, the annual results have also been reviewed by the audit committee of the Company (the “**Audit Committee**”).

BUSINESS OVERVIEW AND OUTLOOK

Market Overview

Looking back to 2022, turmoil in the global security and economic situation rapidly increased international energy prices and grain prices, leading to an increase in the costs of raw materials. Economies around the world were disturbed by the rapidly rising inflation. Meanwhile, with the more rapid spread of Omicron, a COVID-19 variant, in China, the periodic outbreak of COVID-19 cases resulted in a continuous decline in offline consumer traffic, weakening people's consumption willingness and ability, posing a greater challenge to enterprises in terms of production and operation.

Due to the unfavorable external environment, the consumer goods industry was even more severely impacted by the shortage of raw materials, decreases in or temporary suspensions of production and decreases or changes in consumer demands in 2022. On the one hand, there was a continuous increase in uncertainties in relation to the periodic resurgence of the COVID-19 pandemic, and the "pains" of the temporary halt of the market became the "new normal" in the consumer goods industry. On the other hand, the periodic resurgence of the COVID-19 pandemic caused disruptions in the supply chain, leading to a significant increase in the prices of raw materials and significant pressure on the operating costs of enterprises. Meanwhile, the advantages associated with online traffic gradually decreased, which affected the traditional e-commerce business. The Internet-based new economy forms became diversified, and the online emerging channels attracted more attention. The complex and fluid external environment brought great pressure and new opportunities to the consumer goods industry. Within the new economic environment, consumer demands changed significantly, with more attention to products with cost performance, function or value innovation. Meanwhile, with the continuous development of urban agglomeration, the new consumption potential in communities and cities below the third tier was emerging and would be released more rapidly.

Under the new consumption structure, enterprises in the food industry need to continuously innovate themselves, take the initiative to adapt to new consumption demands, pay attention to improving interaction and connection with consumers, accelerate the process of digital transformation of enterprises, continuously improve the online and offline omni-channel operating capabilities, make full use of emerging channels to reach young customers, and realize the integration of online recommendation and offline experience. Meanwhile, it will become a new trend for food brands to focus on brand image building, showcase brand attributes in a younger and more interesting manner, and enhance the popularity of new products and categories. Focusing on consumers' needs, providing consumers with safe and high-quality delicious products and creating emotional resonance and connection with consumers will be the key to the sustainable high-quality growth of food brands.

Overall Business and Financial Performance

Expansion and Optimization of Retail Store Network

In 2022, the Group further strengthened its expansion of offline stores in new markets and its penetration into mature markets. As of December 31, 2022, the Group had a total of 3,429 retail stores, including 1,446 self-operated retail stores and 1,983 franchised stores, covering 319 cities in 28 provinces, autonomous regions and municipalities in China.

The table below sets forth a breakdown of the number of self-operated and franchised retail stores by geographic location and the revenue contribution for the years indicated:

Number of Retail Stores

	Year Ended December 31,			
	2022		2021	
	#	%	#	%
Central China ⁽¹⁾	1,553	45.3	1,231	44.3
Southern China ⁽²⁾	584	17.0	522	18.8
Eastern China ⁽³⁾	454	13.2	366	13.2
Northern China ⁽⁴⁾	490	14.3	401	14.4
Western China ⁽⁵⁾	348	10.2	261	9.3
Total	3,429	100.0	2,781	100.0

Revenue

	Year Ended December 31,			
	2022		2021	
	RMB'000	%	RMB'000	%
Central China ⁽¹⁾	971,709	52.6	1,242,096	55.6
Southern China ⁽²⁾	341,493	18.5	403,319	18.0
Eastern China ⁽³⁾	211,572	11.4	235,507	10.5
Northern China ⁽⁴⁾	187,204	10.1	212,984	9.5
Western China ⁽⁵⁾	136,280	7.4	140,953	6.4
Total	1,848,258	100.0	2,234,859	100.0

(1) Comprises Hubei Province, Hunan Province, Henan Province, Jiangxi Province, Anhui Province and Shanxi Province.

(2) Comprises Guangdong Province, Fujian Province and Hainan Province.

(3) Comprises Shanghai, Jiangsu Province and Zhejiang Province.

- (4) Comprises Beijing, Tianjin, Inner Mongolia Autonomous Region, Liaoning Province, Hebei Province, Shandong Province, Gansu Province, Ningxia Hui Autonomous Region, and Jilin Province.
- (5) Comprises Chongqing, Sichuan Province, Shaanxi Province, Guizhou Province, Yunnan Province, Qinghai Province and Guangxi Zhuang Autonomous Region.

The table below sets forth a breakdown of the number of self-operated and franchised retail stores by city tier and classification for the years indicated:

	Year Ended December 31,			
	2022		2021	
	#	%	#	%
First tier	628	18.3	554	20.0
New first tier	1,258	36.7	953	34.2
Second tier	471	13.7	414	14.9
Third tier	545	15.9	446	16.0
Fourth tier	410	12.0	336	12.1
Fifth tier and below	117	3.4	78	2.8
Total	3,429	100.0	2,781	100.0

	Year Ended December 31,			
	2022		2021	
	#	%	#	%
Transportation hubs ⁽¹⁾	178	5.2	214	7.7
Shopping zones, Commercial complexes and Supermarkets	2,099	61.2	1,908	68.6
Communities	792	23.1	325	11.7
Others ⁽²⁾	360	10.5	334	12.0
Total	3,429	100.0	2,781	100.0

(1) Include stores located in airport and train station.

(2) Include stores located in metro stations, school campuses, sightseeing points, bus terminals and service areas.

In 2022, despite the periodic resurgence of the COVID-19 pandemic and the complex and fluid external market environment, the Group continuously promoted the “self-operation + franchise” dual-drive model against industry headwinds. In order to improve the coverage of offline stores over different consumption scenarios, the Group continuously explored attractive potential store locations, accelerated its arrangements for community scenarios, optimized the store structure and enhanced the risk resistance capability of its offline business. As at December 31, 2022, the total number of stores of the Group was 3,429. In 2023, the Group will continue to optimize its retail store structure, aiming to open around 1,000 new retail stores in 2023.

In the challenging market environment, the Group continuously optimized and upgraded the structure of its offline store network to speed up the exploration and development of the community scenario. Community stores have the advantages of high consumption frequency, strong customer stickiness, low initial investment cost and relatively stable economic benefits, which help to enhance the overall risk resistance capability of the stores and lay a solid foundation for the sustainable and healthy development of the brand and business of Zhou Hei Ya. Following the success of the community stores pilot projects in Wuhan and some other cities, the Group launched the “National Community Store Project (百舸爭流—全國社區店項目)” in early 2022 with the aim of expanding the community store model throughout China. As at December 31, 2022, the Group had a total of 792 community stores, covering 109 cities in China. In 2022, the sales amount of community store terminals of the Group in China was approximately RMB430 million. In 2023, the Group will strive to develop the community market, aiming to have over 1,300 community stores at the end of 2023.

In 2022, the Group launched the Zhou Hei Ya super shopping guide project to create an information tool linking the Group’s headquarters, regional business and terminal stores, which systematized store inspection, employee training and development, marketing promotion and implementation and improved the efficiency of terminal operation management, and laid the foundation for the Group’s plan to open 10,000 stores in the future. Meanwhile, in 2022, the Group improved its single store model, launched “low-cost and flexible” stores with smaller store area and decreased store opening cost, and implemented various assistance policies to support its franchisees, to work together with franchisees to overcome difficulties. In addition, the Group continuously improved the franchisee development management system, and properly carried out franchisee management and regular franchisee surveys for feedback, which was highly recognized by the franchisees.

Diversified Access to Consumers

In 2022, guided by the strategy of covering consumers in all channels and driven by the four drivers of “consumer operation, product operation, O&O business integration and platform resource integration”, the Group continuously improved its channel arrangements and combination to achieve precise consumer coverage for multiple scenarios. Revenue from the Internet O&O business, i.e. the online business and the self-operated ordering and delivery business, accounted for 32.3% of the Group’s total revenue in 2022.

With the goal of serving “ubiquitous consumers”, the Group achieved overall accurate customer reach through building a matrix of long-distance, short-distance and new retail channels. The Group continuously optimized the operation of its delivery business chain. On the one hand, the Group continuously optimized its stores and established a standardized delivery business operation mechanism for new stores. Meanwhile, the Group increased its efforts to promote its delivery business. Through advertising on elevators, subways, bus platforms and other scenarios, the Group deepened its brand penetration. The Group also actively cooperated with tea beverage and catering brands at delivery platforms to enhance brand exposure. On the other hand, the Group strengthened its cooperation with delivery platforms to take advantage of the resources of leading platforms. The Group refined its operation for multiple scenarios, including daily sales, repeat purchases and midnight snacks, for accurate promotion and reach, and to achieve brand monetization. In 2022, the sales amount of online ordering and delivery terminals of the Group’s retail stores aggregated to RMB761 million.

To keep up with the market trend, the Group accelerated the expansion of online emerging channels. In community fresh grocery channel, the Group actively optimized its arrangements for short-distance retail and continuously enabled growth through the four core strategies, namely “consolidation of supply capacity, improvement in resource integration, upgrading of operating capacity and upgrading of channel strategies”. In 2022, the sales amount (including tax) of the Group’s community fresh grocery platform reached approximately RMB136 million. In content e-commerce platforms with a focus on live streaming sales, the Group continuously explored new opportunities for development, and established the matrix of three contents, namely “KOL live streaming, brand live streaming and selective alliance”, to achieve significant enhancement of brand exposure. In 2022, the sales amount (including tax) of the Group’s live streaming platform reached approximately RMB109 million. In addition, the Group further strengthened its arrangements for the Douyin platform, entering the Douyin “local service” business to strengthen the cross-market operation. The Group provided comprehensive exposure for “Douyin Offline Stores” through Douyin short video and KOL live streaming matrix, thus effectively boosting store sales. Meanwhile, through the refined operation of social platforms such as WeiXin groups, mini programs and WeiXin official account, the Group managed members in depth and create the closed loop of the private domain and continuously tapped into the value of existing stores, and achieved mutual complementation and deep integration of online and offline businesses through online marketing and offline transformation.

Product Innovation and Brand Marketing

The Group actively followed consumer trends, continuously improved its product portfolio, expanded product categories, promoted the rapid growth of key products and actively planned its layout in content platforms that are popular with young customers, which accelerated its brand rejuvenation. The unified national marketing and promotion system with “one voice, one image, one Zhou Hei Ya” and the data-centered integrated marketing system deepened the brand image and consumer awareness in a holistic way.

In terms of product innovation, in 2022, in addition to duck products, through resource integration, the Group successfully developed a series of signature products, crayfish balls with mainstream flavors (spicy and garlic paste), addressing the consumer pain point that eating crayfishes is troublesome, with a focus on “eating crayfish with one hand by easily sucking out the meat”, thus successfully resonating with consumers while continuing the strategy of “brand marketing with key products”. This facilitated the rapid growth of crayfish ball products, with the highest monthly sales of more than 1 million boxes in 2022. In order to meet the evolving demands of consumers, the Group kept up with consumption trends, continuously optimizing and upgrading its product research and development system. In 2022, the Group expanded its offerings of crayfish ball products, vegetarian products, spiced products and sweet chili products and completed the transformation from being “promotion-driven” to “new product-driven”.

In terms of product marketing, based on the Group’s diversified product strategy and brand rejuvenation strategy, the Group appointed Yang Chaoyue (楊超越) as its brand spokesperson in China for the first time in 2022 for marketing and promotion with a focus on crayfish ball products, attracting a large number of fans. Meanwhile, the Group organized promotional activities during the 2022 FIFA World Cup and cooperated with KFC again, thus successfully attracting the attention of the new-generation consumers and stimulating their purchases. In addition, the Group continued to carry out content publication and promotion activities around popular products including crayfish balls on platforms such as Douyin, Xiaohongshu, Weibo and WeiXin which generated wide-spread consumer interest. The topic of “eating crayfish with one hand” on Douyin had 390 million views in 2022, and helped the Group to accumulate hundreds of millions of users as an asset and achieve overall accurate reach, gradually form synergy and effectively boost sales.

Supply Chain Optimization

In 2022, against the backdrop of high international commodity prices and high imported inflationary pressures, the prices of major raw materials of the Company increased, leading to a sharp rise in the pressure in terms of costs. Against this backdrop, the Group continuously improved its OCM (operating cost management) mechanism to create a holistic coordination system for the supply chain, continuously reduced costs and increased efficiency, to hedge against the impact of the increase in raw material costs on the gross profit margin.

“Quality improvement, supply assurance, cost reduction and efficiency enhancement” is the Group’s key policy in building a flexible supply chain. In terms of quality improvement, the Group continuously tightened the quality control of raw materials, and strengthened the quality monitoring of production processes through digital and intelligent measures, to continuously improve product quality. In terms of supply assurance, the Group continuously optimized its logistics management system and continuously improved dynamic route planning for warehouse allocation as well as transportation models by upgrading warehouse allocation digitization, sorting automation and other systems based on dynamic management of “main, branch and matching” lines of transportation. In terms of cost reduction and efficiency enhancement, the Group continuously optimized the volume-price forecast model based on the risks and opportunities from market changes, so as to guide more dynamic and refined purchase decisions; meanwhile, the Group held frequent and multi-level production, supply and marketing coordination meetings to adjust the product mix and promotion plans in a timely manner and continuously optimize its gross profit margin.

In terms of production capacity, the Group continued to make overall arrangements around the five major processing facilities in China. At present, the Group has four processing facilities at a cleanroom classification standard of 100,000-class with high automation in northern, central, southern and eastern China. The processing facility in Western China will be put into operation in 2023, and the five major processing facilities will jointly cover China, which will be sufficient to support the Group’s front-line business needs and help to enable flexible deployment to improve the efficiency of delivery to stores. In addition, the Group also realized grid-connected photovoltaic power generation in industrial parks in Jiangsu and Guangdong, thus becoming a benchmark for green manufacturing in the industry.

Organizational Capacity Enhancement

In 2022, the Group continuously improved its organizational system from the perspectives of organizational governance, capacity and vitality, continuously stimulated the improvement in organizational motivation and further solidified its core competitiveness.

In terms of organizational governance, the Group further improved the group-based strategic control and financial control models, and continuously promoted the annual strategic review and operation planning. Meanwhile, the Group carried out the construction of group-level projectized organizations, and procured that working-level employees assume the responsibilities of respective departments. The Group transformed from operation control to business control, thus significantly improving organizational efficiency and governance.

In terms of organizational capability, the Group optimized and improved the organizational capability with a focus on the development of the employment system, professional capability and management capability. The Group continuously consolidated the capacity of teams at all levels and improved the organization and management efficiency in various innovative training forms, based on the different needs of the management and working-level employees, through the form of “training, practice and competition”, and starting from leadership enhancement and developing the strength of mid-level and junior employees. In addition, the Group upgraded its corporate culture, implemented the philosophy of “unite as one” and “work as one mind”, and followed the corporate spirit of sustainability, so as to drive and ensure the sustainable and high-quality development of the enterprise.

In terms of organizational vitality, the Group continuously implemented incentive plans to keep motivating its employees. The Group commenced the employee incentive scheme in 2020 and continuously expanded the scope of incentives. It granted the third tranche of restricted share units on March 31, 2022. As at the date of this announcement, the Group granted 208 selected individuals of the Group a total of 26,099,684 restricted share units with a par value of US\$0.000001 per share, and the underlying shares accounted for 1.1% of the issued shares of the Company. In addition, the Group continuously promoted the establishment of its performance system, incentive system and honor system. With organization, team, individual and project performance as the core, the Group continuously deepened the implementation of the performance philosophy to improve management efficiency. Meanwhile, the Group optimized the multi-level competition mechanism, special incentive schemes and other incentive policies to achieve a multi-dimensional and full-scale incentive system and continuously motivate the internal drive of its employees.

Industry and Business Outlook

The resurgence of the COVID-19 pandemic had a material impact on the overall economic environment, resulting in a decrease in the consumption willingness and capacity of consumers, imposing a material strain on the consumer goods industry. However, with the gradual recovery of macroeconomic, the publication of various policies to promote consumption provided a significant confidence boost to market participants. Consumer consumption is expected to rebound, and trends in consumption recovery are gradually witnessed. Despite the fluid international environment and many difficulties in domestic economic development, China made progress while maintaining stability in the economy in 2022 and entered a new stage of high-quality development.

The Group expects that there are still uncertainties surrounding the external environment, which is subject to the changes of various factors and there remains pressure on consumption growth in the short term. However, looking forward to 2023, the overall consumer market will gradually recover amid fluctuations and develop despite difficulties. With regard to the Group, we have continuously carried out exploration over the past three years and have identified the direction and strategies for future sustainable growth and accelerated the flexible development of each business. Through structural reforms in businesses, stores, products, etc., as well as continuous optimization of supply chain capabilities and organizational capabilities, we have built an improved, resilient and long-term competitive strength to promote our long-term and sustainable development of enterprises.

In 2023, the Group will:

- gradually expand high-quality stores and accelerate the deployment of community consumption scenarios;
- make precise deployment of full-range consumption touch points and reach consumers effectively through all channels;
- optimize the product structure and build a diversified product innovation system;
- focus on the integration of the refined management of the supply chain to reduce costs and increase efficiency, thus resisting external risks; and
- improve the match between talents and strategies, stimulate organizational motivation and improve efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the Group's consolidated statements of profits or loss and other comprehensive income in absolute amounts and as a percentage of the Group's total revenue for the periods indicated, together with the change from 2021 and 2022 (expressed in percentages).

	Year Ended December 31,				Year-on-year Change
	2022		2021		
	RMB'000	%	RMB'000	%	
Revenue	2,343,353	100.0	2,869,963	100.0	(18.3)
Cost of sales	(1,053,869)	(45.0)	(1,211,570)	(42.2)	(13.0)
Gross profit	1,289,484	55.0	1,658,393	57.8	(22.2)
Other income and (losses)/gains, net	56,617	2.4	219,627	7.7	(74.2)
Finance costs	(58,403)	(2.5)	(60,073)	(2.1)	(2.8)
Selling and distribution expenses	(930,509)	(39.7)	(1,084,919)	(37.8)	(14.2)
Administrative expenses	(310,416)	(13.2)	(309,610)	(10.9)	0.3
Share of profits and losses of associates	7,958	0.3	27,572	1.0	(71.1)
Profit before tax	54,731	2.3	450,990	15.7	(87.9)
Income tax expense	(29,448)	(1.3)	(108,566)	(3.8)	(72.9)
Profit for the year	25,283	1.0	342,424	11.9	(92.6)
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	(10,390)	(0.4)	6,635	0.2	(256.6)
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	(10,390)	(0.4)	6,635	0.2	(256.6)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:					
Translation from functional currency to presentation currency	63,097	2.7	(29,351)	(1.0)	(315.0)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	63,097	2.7	(29,351)	(1.0)	(315.0)

	Year Ended December 31,				Year-on-year Change
	2022		2021		
	RMB'000	%	RMB'000	%	
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	52,707	2.3	(22,716)	(0.8)	(332.0)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	77,990	3.3	319,708	11.1	(75.6)
Basic and diluted earnings per share (RMB)	0.01	N/A	0.15	N/A	(93.3)

Revenue

The Group's total revenue decreased by 18.3% from RMB2,870.0 million for the year ended December 31, 2021 to RMB2,343.4 million for the year ended December 31, 2022, which was primarily due to the fact that the COVID-19 pandemic continued in China, and there were several scattered waves of COVID-19 outbreaks, leading to a decrease in customer flow, especially a decrease in consumer traffic at transportation hubs, and temporary closure of many stores.

Cost of Sales

Cost of sales decreased by 13.0% from RMB1,211.6 million for the year ended December 31, 2021 to RMB1,053.9 million for the year ended December 31, 2022, which was attributable to the decrease in customer flow, leading to a decrease in the production and sales of the products of the Company, resulting in decreases in the costs of raw materials, supporting utilities, material consumption, transportation and other costs.

Gross Profit and Gross Profit Margin

As a result of the foregoing as well as due to the facts that (i) the prices of raw materials increased significantly in 2022 as compared with last year, (ii) the Group's sales decreased while certain fixed costs remained the same, resulting in an increase in the per-unit cost of the Group's products, and (iii) a decrease in the gross profit margin of the Group resulting from the well performed franchised business accounting for a larger portion of the total income of the Group in 2022, whose gross profit margin is relatively lower as compared with that of self-operated retail stores, the Group's gross profit decreased by 22.2% from RMB1,658.4 million for the year ended December 31, 2021 to RMB1,289.5 million for the year ended December 31, 2022. However, the Group successfully hedged part of the pressure with its supply chain integration improvement measures. In the year ended December 31, 2022, the Group's gross profit margin was 55.0%, as compared to a gross profit margin of 57.8% in the year ended December 31, 2021.

Other Income and (Losses)/Gains, Net

The Group's other income and (losses)/gains, net decreased by 74.2% from RMB219.6 million for the year ended December 31, 2021 to RMB56.6 million for the year ended December 31, 2022. The decrease was primarily due to (i) a decrease of RMB123.5 million in (loss)/gain on foreign exchange differences; (ii) a decrease of RMB47.1 million in the gain from disposal of property and plant; (iii) a decrease of RMB26.6 million in interest income from bank deposits; (iv) a decrease of RMB17.2 million in (loss)/gain on changes in the fair value of the Convertible Bonds; (v) a decrease of RMB12.6 million in interest income from structured deposits measured at fair value through profit or loss (or "FVTPL") and other financial assets measured at FVTPL; and (vi) a decrease of RMB3.4 million in fair value gain/(loss) on structured deposits measured at FVTPL and other financial assets measured at FVTPL, partially offset by RMB50.9 million in gain from early redemption of the Convertible Bonds and an increase of RMB27.4 million in government grants.

Finance Costs

Finance costs decreased by 2.8% from RMB60.1 million for the year ended December 31, 2021 to RMB58.4 million for the year ended December 31, 2022, which was mainly attributable to the fact that the Company redeemed the Convertible Bonds of an aggregate principal amount of HK\$1,056 million in 2022, resulting in a decrease in interest expense on the Convertible Bonds.

Selling and Distribution Expenses

The Group's selling and distribution expenses decreased by 14.2% from RMB1,084.9 million for the year ended December 31, 2021 to RMB930.5 million for the year ended December 31, 2022. The decrease was primarily due to a decrease in the rent for retail stores in 2022 resulting from the Group's active negotiation on rent reduction during the COVID-19 pandemic, and a decrease in delivery cost expenses in connection with the decrease in the Group's online sales.

Administrative Expenses

The Group's administrative expenses increased by 0.3% from RMB309.6 million for the year ended December 31, 2021 to RMB310.4 million for the year ended December 31, 2022, mainly due to the further implementation of the Group's employee incentive plan.

Share of Profits and Losses of Associates

For the year ended December 31, 2022, the Group incurred share of profits and losses of associates of RMB8.0 million mainly in connection with the 25% equity interest (29.46% prior to February 2021, diluted to 27.28% from March to August 2021, and further diluted to 25% in September 2021) in Shenzhen Tiantu Xingnan Investment Partnership (Limited Partnership), and the 43.86% equity interest (50.00% prior to May 2022, diluted to 45.05% in May 2022, and further diluted to 43.86% in October 2022) in Changsha Tiantu Xingzhou Investment Partnership (Limited Partnership), which were jointly established by the Group and two subsidiaries of Tian Tu Capital Co., Ltd., resulting from fair value gains on the associate's investees and partially offset by the administration expenses.

Profit Before Tax

As a result of the foregoing, the Group recorded profit before tax of RMB54.7 million for the year ended December 31, 2022, decreased by 87.9% from RMB451.0 million for the year ended December 31, 2021.

Income Tax Expense

Income tax expense decreased by 72.9% from RMB108.6 million for the year ended December 31, 2021 to RMB29.4 million for the year ended December 31, 2022, as a result of the decreased profit recorded in 2022.

Profit for the Year

As a result of the foregoing, the Group's net profit decreased by 92.6% from RMB342.4 million for the year ended December 31, 2021 to RMB25.3 million for the year ended December 31, 2022. The Group's net profit margin decreased from 11.9% in the year ended December 31, 2021 to 1.0% in the year ended December 31, 2022.

Exchange Differences on Translation of Foreign Operations

Exchange differences on translation of foreign operations changed from other comprehensive loss of RMB22.7 million for the year ended December 31, 2021 to other comprehensive income of RMB52.7 million for the year ended December 31, 2022, primarily resulting from foreign currency exchange differences since some of the Group's overseas entities use Hong Kong dollar as the reporting currencies.

Total Comprehensive Income for the Year

As a result of the foregoing, the Group's total comprehensive income for the year ended December 31, 2022 decreased by 75.6% to RMB78.0 million from RMB319.7 million for the year ended December 31, 2021.

Liquidity and Capital Resources

In the year ended December 31, 2022, the Group financed its operations through cash generated from its business operations, the net proceeds received from its Initial Public Offering and the exercise of the over-allotment options on November 30, 2016 (the "IPO") and the net proceeds from the issuance of convertible bonds due 2025 in the aggregate principal amount of HK\$1,550.0 million, bearing interest at the rate of 1% per annum (the "2025 Bonds" or the "Convertible Bonds"). The Group intends to finance its expansion and business operation by internal resources and through organic and sustainable growth, as well as to use the net proceeds received from its IPO and the 2025 Bonds.

In November 2020, the Company completed and executed its offering of the 2025 Bonds. Please refer to the announcements of the Company dated October 28, 2020 and November 5, 2020 for more details. The estimated net proceeds from the issuance of the 2025 Bonds, after deducting the relevant commissions and other estimated expenses payable, are approximately HK\$1,519.8 million.

In 2022, in accordance with the terms and conditions of the Convertible Bonds, the Company repurchased by installments Convertible Bonds with a principal amount of HK\$1,056,000,000 in total, representing 68.1% of the aggregate principal amount of the Convertible Bonds originally issued. As at the date of this announcement, the aggregate principal amount of the Convertible Bonds remaining outstanding is HK\$494,000,000, representing 31.9% of the aggregate principal amount of the Convertible Bonds originally issued. Please refer to the announcements of the Company dated April 11, July 19, August 24, December 5, December 12, December 13, December 14 and December 29, 2022 for more details. Please also see “– Other Information – Purchase, Sale and Redemption of Listed Securities” in this announcement.

Capital Structure

As of December 31, 2022, the Group had net assets of approximately RMB4,088.3 million, as compared to RMB4,210.3 million as of December 31, 2021, primarily comprising non-current assets of RMB2,888.2 million, current assets of RMB2,843.5 million, current liabilities of RMB914.6 million and non-current liability of RMB728.8 million.

As of December 31, 2021 and 2022, the cash and cash equivalents of the Group were mainly denominated in Renminbi (“**RMB**”) and Hong Kong Dollars (“**HK\$**”), with some denominated in U.S dollars (“**USD**”) and a small amount in Euro.

Cash and Bank Balances

As compared with RMB2,101.3 million as of December 31, 2021, the Group had cash and bank deposits of approximately RMB1,245.2 million as of December 31, 2022, which consisted of unrestricted cash and bank balances of approximately RMB210.6 million and term deposits of approximately RMB1,034.6 million.

Financial Risks

The Group is not subject to significant credit risk and liquidity risk. The Group had cash at banks denominated in foreign currencies, which exposed the Group to foreign exchange risk. The Group does not use any derivative contracts to hedge against its exposure to foreign exchange risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and will take prudent measures to minimize the currency translation risk.

Use of Proceeds from the IPO

Net proceeds from the IPO (including the exercise of the over-allotment options on November 30, 2016), after deducting the underwriting commission and other estimated expenses in connection with the Global Offering which the Company received amounted to approximately HK\$2,792.3 million, comprising HK\$2,428.1 million raised from the Global Offering and HK\$364.2 million from the issuance of shares pursuant to the exercise of the over-allotment options, respectively. The remaining balance of the proceeds from the IPO as of December 31, 2022 was RMB217.1 million.

The table below sets forth the use of proceeds by the Group as of December 31, 2022:

	Budget	Amount that had been utilized as of December 31, 2021	Amount that was used in the year ended December 31, 2022	Remaining balance as of December 31, 2022	Expected timeline of utilization ⁽¹⁾
	RMB million	RMB million	RMB million	RMB million	
Construction and improvement of processing facilities	1,258.3	1,158.5	99.8	–	Used up
Development of retail network	167.8	160.9	6.9	–	Used up
Branding image campaigns, including the e-commerce marketing campaigns	394.3	296.3	98.0	–	Used up
Improvement of research and development	45.2	45.2	–	–	Used up
Acquisition and strategic alliances	145.2	17.9	–	127.3	N/A ⁽²⁾
Upgrades of information technology systems, including the enterprise resource planning system	96.2	68.2	15.4	12.6	Expected to be used up in two years
General replenishment of working capital	345.2	236.0	32.0	77.2	Expected to be used up in two years
Total	2,452.2	1,983.0	252.1	217.1	

Notes:

- (1) Based on the Group's current estimates of its business plans and market conditions, and subject to change and adjustment.
- (2) The Group expects that the remaining balance will be used in accordance with the intended usage in the coming years as indicated but it is not able to reasonably estimate a detailed timeline of utilization at current stage.

As of December 31, 2022, net proceeds not utilized had been deposited into short-term deposits and money market instruments, including structured deposits.

Use of Proceeds from the 2025 Bonds

The Company completed the offering of the 2025 Bonds in November 2020 and the net proceeds from the issuance of the 2025 Bonds, after deducting the relevant commissions and other estimated expenses payable, are approximately HK\$1,519.8 million.

The table below sets forth the use of proceeds by the Group as of December 31, 2022:

	Initial budget	Adjusted budget ⁽¹⁾	Amount that had been utilized as of December 31, 2021	Amount that was used in the year ended December 31, 2022	Remaining balance as of December 31, 2022	Expected timeline of utilization ⁽²⁾
	RMB million	RMB million	RMB million	RMB million	RMB million	
Further penetration in existing markets and explore new business opportunities	1,133.4	325.4	267.5	11.5	46.4	Expected to be used up in two years
Enhancement of product innovation, research and development capabilities	60.0	17.2	-	-	17.2	Expected to be used up in two years
Working capital and for general corporate purposes	50.0	14.3	-	-	14.3	Expected to be used up in two years
Total	1,243.4	356.9	267.5	11.5	77.9	

Notes:

- (1) The adjustment to budget was due to the Company's partial repurchase of the 2025 Bonds in 2022. For details of the partial repurchase of 2025 Bonds, please refer to the section headed "Purchase, Sale and Redemption of Listed Securities" of this announcement.
- (2) Based on the Group's current estimates of its business plans and market conditions, and subject to change and adjustment.

As of December 31, 2022, net proceeds not utilized had been deposited into short-term deposits and money market instruments.

Indebtedness

As of December 31, 2022, the Group had an aggregate bank borrowings of RMB160 million, all of which will be due within one year. Such outstanding bank borrowings bear fix interest rates and are denominated in Renminbi.

The Group uses the gearing ratio (gearing ratio = total liabilities/total assets) to monitor its capital structure. The Group's gearing ratio decreased from 36.6% as of December 31, 2021 to 28.7% as of December 31, 2022, which was primarily due to the repurchase of the Convertible Bonds with a principal of amount HK\$1,056 million in 2022.

Pledged Assets

The Group did not pledge any of its assets as of December 31, 2021. As of December 31, 2022, the Group had pledged bank deposits of RMB100 million, which were pledged as securities for the short-term bank borrowings of RMB100 million.

Cash Flows

For the year ended December 31, 2022, net cash generated from operating activities decreased to approximately RMB467.6 million from RMB539.8 million for the year ended December 31, 2021, which was mainly attributable to profit before tax of RMB54.7 million, adjusted for certain non-cash items and profit before tax from non-operating activities such as depreciation of fixed assets, depreciation and amortization of right-of-use assets and land use rights, interest income from bank deposits and interest income from structured deposits. Additional factors that affected net cash generated from operating activities included: (i) a decrease in profit before tax of RMB396.3 million, while income tax paid decreased by RMB25.9 million; (ii) a decrease in inventory of RMB41.2 million mainly due to decreased production activities and precise purchasing decisions; (iii) a decrease in other payables and accruals of RMB58.4 million; (iv) an increase in trade payables of RMB29.5 million; and (v) a decrease in trade receivables of RMB11.6 million.

For the year ended December 31, 2022, net cash generated from investing activities was approximately RMB1,044.4 million, compared with net cash used in investing activities of RMB57.6 million for the year ended December 31, 2021, which was mainly attributable to (i) purchases of structured deposits and other financial assets at fair value through profit or loss in the aggregate amount of RMB4,389.3 million, (ii) purchase of items of property, plant and equipment and intangible assets in the aggregate amount of RMB160.4 million, partially offset by (i) redemption of structured deposits and other financial assets measured at FVTPL in the aggregate amount of RMB4,476.8 million, (ii) a decrease of term deposits of maturity over three months of RMB1,090.6 million; and (iii) interest from structured deposits and other financial assets measured as fair value through profit or loss of RMB33.4 million.

For the year ended December 31, 2022, net cash used in financing activities was approximately RMB1,318.3 million, compared with RMB470.1 million for the year ended December 31, 2021, which was mainly attributable to (i) dividends paid in the amount of RMB236.3 million in 2022; (ii) repurchase of Convertible Bonds RMB886.5 million; and (iii) lease rental payments of RMB200.0 million.

Structured Deposits and Other Financial Assets Measured at FVTPL

The Group from time to time invests in asset management products, primarily structured deposits and other financial assets measured at FVTPL, in order to better facilitate its cash management. Structured deposits were principal-protected products which typically had a fixed short term and may be redeemed upon at their respective expiry dates. The Group's other financial assets measured at FVTPL were mainly investments in equity funds, which generally are not principal-protected nor return-guaranteed. Such investments also typically have a fixed short term and are relatively low risk in nature. As of December 31, 2022, the Group had a balance of structured deposits and other financial assets measured at FVTPL in the amount of approximately RMB1,144.7 million. Up to the date of this announcement, approximately RMB416.5 million out of the RMB1,144.7 million had been settled and redeemed upon their maturity with the remaining not yet fallen due. The underlying investments of the structured deposits were primarily short-term sovereign bonds, financial bonds and central bank bills, and other investment products issued by commercial banks in the inter-bank market in China, which were very liquid with a relatively short term of maturity, and which were considered

akin to placing deposits with banks whilst enabling the Group to earn a relatively higher rate of return. In the year ended December 31, 2022, interest income from structured deposits and other financial assets measured at FVTPL amounted to RMB33.4 million, as compared to approximately RMB46.0 million in the year ended December 31, 2021.

The Group has implemented capital and investment policies to monitor and control the risks relating to its investment activities. The Group may only make investments in asset management products when it has surplus cash. The Group is only entitled to invest in low-risk products issued by qualified commercial banks or other financial institutions, and investments should be non-speculative in nature. The Group's capital and investment policies also specify the criteria for selecting investments to be considered and the detailed review procedures each proposed investment shall go through.

In view of an upside of earning a relatively higher return than current saving or fixed deposit rate, as well as the principal-protected nature and a relatively short term of maturity of the structured deposits, the Directors are of the view that the structured deposits pose little risk to the Group and the terms and conditions of each of the structured deposits are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

Capital Expenditure

The Group's capital expenditures amounted to RMB160.4 million as of December 31, 2022, mainly in connection with the establishment and improvement of processing facilities. The Group financed its capital expenditures primarily with cash generated from business operations and the net proceeds from the IPO.

Contingent Liabilities and Guarantees

As of December 31, 2022, the Group did not have any significant unrecorded contingent liabilities, guarantees or any litigation against it.

Major Investments

Between January 28, 2022 and August 12, 2022, the Company had subscribed for wealth management and structured deposit financial products offered by, amongst others, Industrial Bank Co., Ltd. ("**Industrial Bank**") and China Everbright Bank Company Limited ("**China Everbright Bank**"). During such period, the Company subscribed from Industrial Bank wealth management and structured deposit financial products with an aggregated principal amount of RMB718,748,000 with expected annual return rates ranging from 2.37% to 4.19%, and subscribed from China Everbright Bank wealth management and structured deposit financial products with an aggregated principal amount of RMB1,135,373,104 with expected annual return rates ranging from 2.20% to 4.00% (the "**Subscriptions**"). Each of the wealth management and structured deposit financial products is characterized by its nature of convenient trading with satisfactory liquidity, and the Subscriptions were for treasury management purpose in order to maximize the return on the surplus cash received from the Group's business operations. The Company expects that the wealth management and structured deposit financial products will earn a better yield than demand deposits generally

offered by commercial banks in the PRC while at the same time offer flexibility to the Group in terms of treasury management. For details, please refer to the Company's announcement dated September 2, 2022. As of the date of this announcement, the aggregated outstanding principal amount of the Group's wealth management products and structured deposit financial products subscribed from Industrial Bank and China Everbright Bank was RMB50 million and RMB40 million, respectively.

Other than the Subscriptions disclosed above, the Group did not conduct any material investment, acquisition or disposal in 2022 and in the period from December 31, 2022 to March 31, 2022, being the date of this announcement.

In addition, save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the prospectus of the Company dated November 1, 2016 (the "**Prospectus**"), the Group has no specific plan for major investment or acquisition for major assets or other business. However, the Group will continue to identify new opportunities for business development.

Restricted Share Unit Scheme

The Company adopted its Restricted Share Unit Scheme (the "**RSU Scheme**") on July 25, 2018. The purpose of the RSU Scheme is to incentivize Directors, senior management and employees of the Group for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests of the Company. The Board has the power to administer the RSU Scheme. The Board may, from time to time and at its sole discretion, select any eligible person, as defined in the RSU Scheme, to participate in the RSU Scheme and determine the number of Shares to be granted and the terms and conditions of the grant.

As of the date of this announcement, pursuant to the RSU Scheme, 208 selected persons had received the RSUs representing 26,099,684 shares of the Company with par value of US\$0.000001 each, of which (i) two selected persons who are directors of the Company had received RSUs representing 6,188,680 shares; and (ii) 206 selected persons who are employees of the Group had received RSUs representing 19,911,004 shares. The underlying shares concerned represented 1.1% of the Company's issued shares.

Please refer to the Company's announcements dated July 25, 2018, July 31, 2018, October 24, 2018 and July 5, 2021 for detailed summaries of its RSU Scheme and the announcements dated April 20, 2020, February 1, 2021, March 25, 2021 and March 31, 2022 for the details in connection with grants of the RSUs.

Turnover Ratios

Average inventory turnover days increased from 86.9 days in the year ended December 31, 2021 to 104.4 days in 2022, mainly due to (i) the slower turnover of raw materials and finished goods as a result of the slowdown in production activities resulting from the COVID-19 pandemic, and (ii) an increase in the prices of raw materials.

Average trade receivables turnover days increased from 8.9 days in the year ended December 31, 2021 to 10.1 days in the year ended December 31, 2022, primarily due to the slightly longer credit terms granted to certain e-commerce platforms when the Group renewed its cooperation with them in 2022.

Average trade payables turnover days increased from 24.8 days in the year ended December 31, 2021 to 32.1 days in the year ended December 31, 2022, primarily due to the delay in processing of some payables in 2022 as the work and life of some employees of the Group were affected as the result of the continuous spread of the COVID-19 pandemic.

Employee and Labor Cost

As of December 31, 2022, the Group had a total of 4,217 employees, among which 61.7% were retail store operations and sales staff and 21.3% were manufacturing staff at its processing facilities.

The Group has developed a performance evaluation system to assess the performance of its employees annually, which forms the basis for determining the salary levels, bonuses and promotions an employee may receive. Sales and marketing personnel may also receive bonuses based on the sales targets they accomplish, by taking into account the overall sales performance of the stores in the same regional market in the relevant period.

In the year ended December 31, 2022, the Group incurred total labor costs of RMB495.8 million, representing 21.2% of total revenue of the Group.

Top Suppliers and Top Customers

In the year ended December 31, 2022, purchases from the Group's largest duck supplier in terms of RMB amount accounted for 5.7% of total purchase cost and the aggregate purchases from its top five duck suppliers in aggregate accounted for 20.0% of total purchase cost.

Due to the nature of the Group's business, in the year ended December 31, 2022, revenue derived from its top five customers accounted for less than 30% of total revenue.

Reserves

As of December 31, 2022, the Group's reserves available for distribution to shareholders amounted to approximately RMB1,226.2 million.

Subsequent Events

Subsequent to December 31, 2022 and up to March 31, 2023 (being the date of this announcement), no material events were undertaken by the Group.

FINANCIAL INFORMATION

The audited consolidated annual results of the Group for the year ended December 31, 2022 are as follow:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE		2,343,353	2,869,963
Cost of sales	3(a)	(1,053,869)	(1,211,570)
Gross profit		1,289,484	1,658,393
Other income and (losses)/gains, net		56,617	219,627
Finance costs	4	(58,403)	(60,073)
Selling and distribution expenses		(930,509)	(1,084,919)
Administrative expenses		(310,416)	(309,610)
Share of profits and losses of associates		7,958	27,572
PROFIT BEFORE TAX	5	54,731	450,990
Income tax expense	6	(29,448)	(108,566)
PROFIT FOR THE YEAR		25,283	342,424
Attributable to:			
Owners of the parent		25,283	342,424
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted (RMB)		0.01	0.15
PROFIT FOR THE YEAR		25,283	342,424

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

Year ended 31 December 2022

	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	<u>(10,390)</u>	<u>6,635</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	<u>(10,390)</u>	<u>6,635</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Translation from functional currency to presentation currency	<u>63,097</u>	<u>(29,351)</u>
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	<u>63,097</u>	<u>(29,351)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>52,707</u>	<u>(22,716)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>77,990</u>	<u>319,708</u>
Attributable to:		
Owners of the parent	<u>77,990</u>	<u>319,708</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022	2021
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,446,270	1,438,185
Right-of-use assets	9(a)	438,809	481,026
Prepayments, other receivables and other assets		29,047	37,530
Rental deposits		94,195	94,575
Other intangible assets		19,034	25,282
Investments in associates	10	633,246	569,271
Other financial assets at fair value through profit or loss	12	120,000	120,000
Equity investments designated at fair value through other comprehensive income		2,500	–
Deferred tax assets		105,106	84,145
Total non-current assets		2,888,207	2,850,014
CURRENT ASSETS			
Inventories		280,726	321,937
Trade receivables	11	56,037	73,571
Prepayments, other receivables and other assets		136,066	172,860
Structured deposits	12	307,546	454,499
Other financial assets at fair value through profit or loss	12	717,189	662,809
Restricted cash		100,000	–
Cash in transit		700	1,092
Cash and bank balances		1,245,248	2,101,253
Total current assets		2,843,512	3,788,021
CURRENT LIABILITIES			
Trade payables	13	107,444	77,933
Other payables and accruals		395,426	466,432
Derivative financial instruments	14	16,857	34,278
Interest-bearing bank borrowings	15	160,000	50,000
Government grants		2,283	2,372
Lease liabilities	9(b)	199,543	189,551
Income tax payable		33,016	46,346
Total current liabilities		914,569	866,912
NET CURRENT ASSETS		1,928,943	2,921,109
TOTAL ASSETS LESS CURRENT LIABILITIES		4,817,150	5,771,123

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)*31 December 2022*

		<u>2022</u>	<u>2021</u>
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Other payables and accruals		32,850	36,105
Convertible bonds	14	439,679	1,233,353
Government grants		49,474	51,298
Deferred tax liabilities		56,134	55,409
Lease liabilities	9(b)	150,704	184,650
		<hr/>	<hr/>
Total non-current liabilities		728,841	1,560,815
		<hr/>	<hr/>
NET ASSETS		4,088,309	4,210,308
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	16	16	16
Treasury shares		(324,459)	(341,445)
Reserves		4,412,752	4,551,737
		<hr/>	<hr/>
TOTAL EQUITY		4,088,309	4,210,308
		<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands on 13 May 2015. The registered and correspondence office of the Company is an office of Intertrust Corporate Services (Cayman) Limited, located at One Nexus Way, Camana Bay, Grand Cayman KY1-9005, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 11 November 2016 (the “**Listing**”).

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for structured deposits, other financial assets at fair value through profit or loss (“**FVTPL**”), equity investment designed at fair value through other comprehensive income (“**FVTOCI**”) and derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year’s financial statements

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples, accompanying HKFRS 16, and HKAS 41

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

- (a) Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting* (the “**Conceptual Framework**”) issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC) – Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC) – Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

3. REVENUE, OTHER INCOME AND (LOSSES)/GAINS, NET

An analysis of revenue is as follows:

	2022	2021
	RMB'000	RMB'000
Revenue from contracts with customers	<u>2,343,353</u>	<u>2,869,963</u>
Revenue from contracts with customers		
<i>(a) Disaggregated revenue information</i>		
	2022	2021
	RMB'000	RMB'000
Types of goods or services		
Modified-Atmosphere-Packaged products	2,027,998	2,498,285
Vacuum-packaged products	210,271	268,683
Franchise fees of retail stores	33,608	27,601
Other products	71,476	75,394
Total revenue from contracts with customers	<u>2,343,353</u>	<u>2,869,963</u>

3. REVENUE, OTHER INCOME AND (LOSSES)/GAINS, NET (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
Timing of revenue recognition		
Goods transferred at a point in time	2,309,745	2,842,362
Service transferred over time	<u>33,608</u>	<u>27,601</u>
Total revenue from contracts with customers	<u>2,343,353</u>	<u>2,869,963</u>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of casual braised food	25,380	18,372
Franchise fee of retail stores	<u>13,869</u>	<u>5,322</u>
	<u>39,249</u>	<u>23,694</u>

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of casual braised food

The performance obligation is satisfied upon delivery of the goods and payment is generally settled once the goods are delivered, except for franchisees and distributors, where payment in advance is normally required.

Franchise fees of retail stores

The performance obligation is satisfied over time as services are rendered and advances are normally required before rendering the services. Generally, franchise fee contracts are for periods of more than one year, and the franchise fees are billed according to the contracts.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
Amounts expected to be recognised as revenue:		
Within one year	48,250	39,249
After one year	<u>32,850</u>	<u>36,105</u>
	<u>81,100</u>	<u>75,354</u>

3. REVENUE, OTHER INCOME AND (LOSSES)/GAINS, NET (continued)

An analysis of other income and (losses)/gains, net is as follow:

	<i>Notes</i>	<u>2022</u>	<u>2021</u>
		RMB'000	RMB'000
<u>Other income</u>			
Interest income from bank deposits		34,276	60,906
Interest income from structured deposits		13,796	6,826
Interest income from other financial assets at FVTPL		19,606	39,148
Interest income from advanced to an associate		158	–
Government grants related to assets ⁽ⁱ⁾		2,372	2,372
Government grants related to income ⁽ⁱⁱ⁾		43,647	16,210
		<u>113,855</u>	<u>125,462</u>
<u>(Losses)/gains, net</u>			
Fair value gain on structured deposits measured at FVTPL		1,421	6,125
Fair value loss on other financial assets measured at FVTPL		(6,408)	(7,719)
Fair value (loss)/gain on financial instruments			
– embedded derivative component of convertible bonds	14	(2,731)	14,474
Fair value gain on derivative instruments			
– transactions not qualifying as hedges		–	2,330
Gain on disposal of items of			
property, plant and equipment, net		1,673	48,796
Gain/(loss) on modification of lease, net	9	13,458	(9,980)
Impairment of right-of-use assets	9	(20,312)	(24,281)
(Loss)/gain on foreign exchange differences, net		(109,074)	14,396
Gain from early redemption of convertible bonds		50,913	–
Gain on disposal of a subsidiary		–	31,340
Others		13,822	18,684
		<u>(57,238)</u>	<u>94,165</u>
Total		<u>56,617</u>	<u>219,627</u>

- i. The Group has received certain government grants related to the investments in production plants. The grants related to assets were recognised in the consolidated statement of profit or loss over the useful lives of relevant assets.
- ii. There were no unfulfilled conditions and other contingencies attaching to the government grants that had been recognised.

4. FINANCE COSTS

An analysis of finance costs is as follows:

	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
Interest on bank borrowings	5,695	921
Interest on convertible bonds	35,711	41,831
Interest on lease liabilities	16,997	17,321
Total	<u>58,403</u>	<u>60,073</u>

5. PROFIT BEFORE TAX

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

	2022	2021
	RMB'000	RMB'000
Cost of inventories sold	863,864	977,049
Depreciation of property, plant and equipment	129,556	124,700
Depreciation of right-of-use assets	253,427	268,555
Amortisation of other intangible assets	12,551	9,319
Auditor's remuneration	2,400	2,400
Minimum Lease payments under short term leases in respect of stores and plant premises	56,737	60,840
Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	372,405	390,745
Pension scheme contributions**	63,893	56,982
Equity-settled share-based payment expense	32,768	26,797
Other welfare	26,684	33,350
	495,750	507,874
Advertising and promotion expenses	38,302	52,793
E-commerce and online ordering platform related service and delivery fees	143,247	196,093
Fuel cost	13,839	17,680
Utility expenses	39,188	41,798
Share of profits and losses of associates	(7,958)	(27,572)
Finance costs	58,403	60,073
Transportation expenses	67,033	86,696
Interest income from bank deposits	(34,276)	(60,906)
Interest income from structured deposits	(13,796)	(6,826)
Interest income from other financial assets at FVTPL	(19,606)	(39,148)
Interest income from loan to an associate	(158)	–
Fair value gain on structured deposits measured at FVTPL	(1,421)	(6,125)
Fair value loss on other financial assets measured at FVTPL	6,408	7,719
Fair value loss/(gain) on financial instruments – embedded derivative component of convertible bonds	2,731	(14,474)
Fair value gain on derivative instruments – transactions not qualifying as hedges	–	(2,330)
Gain on disposal of items of property, plant and equipment, net	(1,673)	(48,796)
(Gain)/loss on modification of lease, net	(13,458)	9,980
Impairment of right-of-use assets	20,312	24,281
Impairment of trade receivables	5,925	1,335
Loss/(gain) on foreign exchange differences	109,074	(14,396)
Gain from early redemption of convertible bonds	(50,913)	–
Government grants related to assets	(2,372)	(2,372)
Government grants related to income	(43,647)	(16,210)
Gain on disposal of a subsidiary	–	(31,340)
Covid-19-related rent concessions from lessors	(34,790)	(6,580)

* The depreciation of property, plant and equipment and depreciation of right-of-use assets for the year are included in “Cost of sales” in the consolidated statement of profit or loss.

** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

6. INCOME TAX

The major components of income tax expenses are as follows:

	<u>2022</u>	<u>2021</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Current – PRC		
Charge for the year	49,029	97,238
Underprovision in prior year	655	–
	<u>49,684</u>	<u>97,238</u>
Deferred tax	<u>(20,236)</u>	<u>11,328</u>
Total tax charge for the year	<u>29,448</u>	<u>108,566</u>

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

The provision for current income tax in the PRC is based on a statutory rate of 25% (2021: 25%) of the assessable profits of the subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law. Hubei Zhou Hei Ya Limited Foods Industrial Park Co., Ltd. is accredited as “High and New Technology Enterprise”, and therefore entitled to a preferential income tax rate of 15% for the year end 31 December 2022 (2021: 15%). Such qualifications are subject to be reviewed by the relevant tax authority in the PRC for every three years.

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2021: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%). No Hong Kong profits tax on this subsidiary has been provided as there was no assessable profit arising in Hong Kong during the year.

7. DIVIDENDS

	<u>2022</u>	<u>2021</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Dividends declared	–	238,314

The board resolved not to declare a final dividend for the year ended 31 December 2022 (2021: HK\$0.12 (equivalent to RMB0.10) per ordinary share, representing a total payment of approximately RMB238,314,000 including RMB7,471,000 of a dividend attributable to the repurchased shares held by the trustee of the Group for a future incentive scheme).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,311,223,096 (2021: 2,312,877,683) in issue during the year.

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

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

	<u>2022</u>	<u>2021</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	25,283	342,424
Add: Interest on convertible bonds	35,711	41,831
Fair value loss/(gain) on the derivative component of the convertible bonds	<u>2,731</u>	<u>(14,474)</u>
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	<u>63,725*</u>	<u>369,781</u>
	Number of shares	
	<u>2022</u>	<u>2021</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,311,223,096	2,312,877,683
Effect of dilution – weighted average number of ordinary shares:		
Restricted share unit scheme	6,966,626	5,018,686
Convertible bonds	<u>121,649,368</u>	<u>149,038,462</u>
	<u>2,439,839,090*</u>	<u>2,466,934,831</u>
Earnings per share:		
Basic (RMB)	<u>0.01</u>	<u>0.15</u>
Diluted (RMB)	<u>0.01</u>	<u>0.15</u>

* Because the diluted earnings per share amount is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amounts are based on the profit for the year attributable to ordinary equity holders of the parent of RMB25,283,000 (2021: RMB342,424,000), and the weighted average number of ordinary shares of 2,318,189,722 (2021: 2,317,896,369) in issue during the year.

9. LEASES

The Group as a lessee

The Group has lease contracts for various items of properties used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 15 months and 7 years. Motor vehicles generally have lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are certain lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

(a) *Right-of-use assets*

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

	<u>Leasehold land</u>	<u>Properties</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000
As at 1 January 2021	149,744	418,837	568,581
Additions	–	355,182	355,182
Disposal of a subsidiary	(22,465)	–	(22,465)
Depreciation charge	(3,255)	(265,977)	(269,232)
Reassessment of a lease term arising from a decision not to exercise the extension option	–	(11,280)	(11,280)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(115,479)	(115,479)
Impairment	–	(24,281)	(24,281)
	<u>124,024</u>	<u>357,002</u>	<u>481,026</u>
As at 31 December 2021 and 1 January 2022	124,024	357,002	481,026
Additions	–	373,442	373,442
Depreciation charge	(2,856)	(251,248)	(254,104)
Reassessment of a lease term arising from a decision not to exercise the extension option	–	(39,158)	(39,158)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(102,085)	(102,085)
Impairment	–	(20,312)	(20,312)
	<u>121,168</u>	<u>317,641</u>	<u>438,809</u>
As at 31 December 2022	121,168	317,641	438,809

The management of the Group concluded there were indications for impairment and conducted impairment assessment on recoverable amounts of certain right-of-use assets with carrying amounts of RMB79,130,000 due to the continuous COVID-19. The Group estimates the recoverable amount of RMB58,818,000 of the several cash generating units (“CGUs”) of retail stores to which the asset belongs when it is estimated the recoverable amount individually, including allocation of corporate assets when reasonable and consistent basis can be established.

9. LEASES (continued)

The Group as a lessee (continued)

(a) *Right-of-use assets (continued)*

The Group's leasehold land is located in Wuhan City of Hubei Province, Dongguan City of Guangdong Province, Chengdu City of Sichuan Province, Nantong City of Jiangsu Province, Cangzhou City of Hebei Province and Qianjiang City of Hubei Province, the PRC, with lease periods of 50 years.

During the year, RMB677,000 (2021: RMB677,000) of amortisation of the prepaid land lease payments was capitalised as part of the construction costs of the factory in Chengdu City and Qianjiang City.

(b) *Lease liabilities*

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

	<u>2022</u>	<u>2021</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Carrying amount at 1 January	374,201	425,719
New leases	365,500	337,199
Accretion of interest recognised during the year	16,997	17,321
Covid-19-related rent concessions from lessors	(34,790)	(6,580)
Payments	(216,960)	(282,679)
Reassessment of a lease term arising from a decision not to exercise the extension option	(23,014)	(6,882)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(131,687)	(109,897)
Carrying amount at 31 December	<u>350,247</u>	<u>374,201</u>
Analysed into:		
Current portion	199,543	189,551
Non-current portion	150,704	184,650
	<u>350,247</u>	<u>374,201</u>

9. LEASES (continued)

The Group as a lessee (continued)

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

	2022	2021
	RMB'000	RMB'000
Interest on lease liabilities	16,997	17,321
Depreciation charge of right-of-use assets	253,427	268,555
Expense relating to short-term leases (included in cost of sales and selling and distribution expenses)	23,839	7,884
Variable lease payments not included in the measurement of lease liabilities (included in cost of sales and selling and distribution expenses)	32,898	52,956
Covid-19-related rent concessions from lessors	(34,790)	(6,580)
(Gain)/loss on modification of lease, net	(13,458)	9,980
Impairment of right-of-use assets	20,312	24,281
	<u>299,225</u>	<u>374,397</u>
Total amount recognised in profit or loss	<u>299,225</u>	<u>374,397</u>

(d) *Variable lease payments*

The Group leased a number of the retail stores and premises which contain variable lease payment terms that are based on the Group's turnover generated from the retail stores and premises in the shopping malls. The following provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments:

2022	Fixed payments	Variable payments	Total
	RMB'000	RMB'000	RMB'000
Fixed rent	239,787	–	239,787
Variable rent with minimum payment	1,012	797	1,809
Variable rent only	–	32,101	32,101
	<u>240,799</u>	<u>32,898</u>	<u>273,697</u>
	<u>240,799</u>	<u>32,898</u>	<u>273,697</u>
2021	Fixed payments	Variable payments	Total
	RMB'000	RMB'000	RMB'000
Fixed rent	239,455	–	239,455
Variable rent with minimum payment	51,108	15,678	66,786
Variable rent only	–	37,278	37,278
	<u>290,563</u>	<u>52,956</u>	<u>343,519</u>
	<u>290,563</u>	<u>52,956</u>	<u>343,519</u>

A 10% (2021: 10%) increase in sales in the retail stores would increase the total lease payments by 1% (2021: 2%).

10. INVESTMENT IN ASSOCIATES

	2022	2021
	RMB'000	RMB'000
Share of net assets	633,246	569,271

Particulars of the Company's material associates are as follows:

Name	Place of incorporation	Ownership interest	Percentage of Voting power	Profit sharing	Principal activity
Shenzhen Tiantu Xingnan Investment Partnership (Limited Partnership) (“Shenzhen Tiantu Xingnan”) (Note a)	PRC	25.00%	40.00%	25.00%	Investment fund
Shanghai Zhi Yi Enterprise Development (“Shanghai Zhi Yi”) (Note b)	PRC	49.90%	49.90%	49.90%	Investment holding
Changsha Tiantu Xingzhou Investment Partnership (Limited Partnership) (“Changsha Tiantu Xingzhou”) (Note c)	PRC	43.86%	25.00%	43.86%	Investment fund
Hubei Dwelling Foods Co.,Ltd. (“Hubei Dwelling”) (Note d)	PRC	20.00%	20.00%	20.00%	Warehousing Business
ACCF Ginkgo Capital I L.P. (“ACCF Ginkgo”) (Note e)	Cayman Island	49.50%	33.30%	49.50%	Investment fund

- (a) In March 2018, the Group, through an indirect-wholly-owned subsidiary, entered into a partnership agreement with Shenzhen Tiantu Capital Management Centre (Limited Partnership) and Shenzhen Tiantu Xing'an Investment Enterprise (Limited Partnership) to jointly form Shenzhen Tiantu Xingnan, an investment fund, as a limited partner with an initial capital commitment of RMB500,000,000, representing 50.00% of the total commitment capital of RMB1,000,000,000 of this fund.

The board composition of Shenzhen Tiantu Xingnan comprised of five directors, of which two of them are appointed by the Group and the remaining three directors were appointed by the other shareholders of Shenzhen Tiantu Xingnan. The resolution of the board of directors of Shenzhen Tiantu Xingnan requires approval by simple majority. As such, the Group can exercise significant influence over Shenzhen Tiantu Xingnan's financial or operating policies and, accordingly, the Group accounts for Shenzhen Tiantu Xingnan as an associate.

As of 31 December 2021, the total paid-up capital of this fund was RMB940,000,000, being the additional capital injection of RMB151,500,000 made by an independent third party institutional investors minus the capital distribution to all investors of RMB 60,000,000.

As of 31 December 2022, the total paid-up capital of this fund was RMB850,000,000 as a result of the capital distribution to all investors of RMB90,000,000 in January 2022. The Group's paid-in contribution of RMB212,500,000 (2021: RMB235,000,000), represented 25.00% (2021: 25.00%) of the total paid-up capital of this fund.

- (b) In April 2021, the Group, through an indirect wholly-owned subsidiary, entered into an agreement with Shanghai Bofu Business Service Office (Limited Partnership) to jointly form Shanghai Zhi Yi, with an initial subscription amount of RMB29,940,000, representing 49.90% of the total initial subscription amount of this associate.

As of 31 December 2022, the Group's paid-in contribution of RMB17,515,000 (2021: RMB17,515,000) represented 49.90% (2021: RMB: 49.90%) of the total paid-up capital of Shanghai Zhi Yi.

10. INVESTMENT IN ASSOCIATES (continued)

- (c) In October 2021, the Group, through an indirect wholly-owned subsidiary, entered into a partnership agreement with Shenzhen Tiantu Capital Management Centre (Limited Partnership) and Shenzhen Tiantu Investment Management Co.,Ltd to jointly form Changsha Tiantu Xingzhou, an investment fund, as a limited partner with an initial subscription amount of RMB500,000,000, representing 50.00% of the total initial subscription amount of this fund.

The board composition of Changsha Tiantu Xingzhou comprised of four directors, of which one of them is appointed by the Group and the remaining three directors were appointed by other shareholders of Changsha Tiantu Xingzhou. The resolution of the board of directors of Changsha Tiantu Xingzhou requires approval by simple majority. As such, the Group can exercise significant influence over Changsha Tiantu Xingzhou's financial or operating policies and, accordingly, the Group accounts for Changsha Tiantu Xingzhou as an associate.

As of 31 December 2022, the total paid-up capital of this fund was RMB570,000,000, being the additional capital injection of RMB70,000,000 by independent third institutional investors. The Group's paid-in contribution of RMB250,000,000 (2021: RMB 250,000,000) represented 43.86% (2021: 50.00%) of the total paid-up capital of Changsha Tiantu Xingzhou.

- (d) In November 2021, the Group, through an indirect wholly-owned subsidiary, disposed of 80.00% ownership of Hubei Dwelling, and the remaining 20.00% of equity interest in Hubei Dwelling was accounted for investment in an associate.

For the year ended 31 December 2022, the Group made a RMB90,000,000 capital injection into Hubei Dwelling.

As of 31 December 2022, the Group's paid-in contribution of RMB15,000,000 (2021: RMB6,000,000) represented 20.00% (2021: 20.00%) of the total paid-up capital of Hubei Dwelling.

- (e) In June 2022, the Company entered into a partnership agreement with Advantage China Consumer Fund (ACCF Capital) and Ginkgo Future Ltd to jointly form ACCF Ginkgo Capital I L.P ("ACCF Ginkgo"), as a limited partner, with an initial subscription amount of USD30,000,000, representing 49.50% of the total initial subscription amount of the fund.

The board composition of ACCF Ginkgo comprised of three directors of which one of them is appointed by the Group and the remaining two directors were appointed by each of the other shareholders of ACCF Ginkgo. The resolution of the board of directors of ACCF Ginkgo requires approval by simple majority. As such, the Group can exercise significant influence over ACCF Ginkgo's financial or operating policies and, accordingly, the Group accounts for ACCF Ginkgo as an associate.

As of 31 December 2022, the Group's paid-in contribution of USD10,000,000 represented 49.50% of the total paid-up capital of USD20,200,000.

11. TRADE RECEIVABLES

	2022	2021
	RMB'000	RMB'000
Trade receivables	63,297	74,906
Less: Impairment provision	(7,260)	(1,335)
	<u>56,037</u>	<u>73,571</u>

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables related to various diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

11. TRADE RECEIVABLES (continued)

The ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
Within 3 months	46,665	57,554
3 to 12 months	1,919	15,434
Over 1 year	7,453	583
	<u>56,037</u>	<u>73,571</u>

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

	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
At beginning of year	1,335	–
Impairment losses	5,925	1,335
At end of year	<u>7,260</u>	<u>1,335</u>

The Group applies the simplified approach to provide for expected credit losses prescribed in HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the characteristics of the shared credit risk and the days past due of the trade receivables to measure the expected credit losses. Majority of the receivables were neither past due nor impaired and relate to diversified customers for whom there was no recent history of default and in general, the Group recognises a loss allowance based on a 12-month ECLs at each reporting date. The Directors are of the opinion that the credit risk was minimal in view of there has not been a significant change in credit quality.

12. STRUCTURED DEPOSITED AND OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		<u>2022</u>	<u>2021</u>
	<i>Notes</i>	RMB'000	RMB'000
Current:			
Other financial assets at FVTPL			
Structured deposits products	<i>(i)</i>	307,546	454,499
Wealth management products	<i>(ii)</i>	717,189	662,809
		<u>1,024,735</u>	<u>1,117,308</u>
Non-current:			
Other financial assets at FVTPL			
Private equity fund	<i>(iii)</i>	120,000	120,000
		<u>1,144,735</u>	<u>1,237,308</u>

12. STRUCTURED DEPOSITED AND OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Notes:

- (i) The above structured deposits products were issued by licensed banks in Mainland China. As at 31 December 2022, structured deposits of RMB307,546,000 (2021: RMB454,499,000) were classified as financial assets at fair value through profit or loss as these structured deposits are with expected rates of return (not guaranteed) at floating rates ranging from 1.50% to 3.90% (2021: 1.00% to 4.05%), linked to foreign exchange rate.
- (ii) At 31 December 2022, the wealth management products of RMB717,189,000 (2021: RMB662,809,000) were issued by licensed banks in Mainland China and Hong Kong. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The underlying investments of the financial assets were primarily short-term sovereign bonds, financial bonds and central bank bills, and other investment products issued by commercial banks in the inter-bank market in Mainland China and Hong Kong, which were very liquid with a relatively short-term maturity. The products have maturity within 90-365 days and the expected but not guaranteed returns are at 3.60%-5.86% (2021: 3.40%-6.80%) per annum. None of the wealth management products are past due.
- (iii) At 31 December 2022, the financial assets of RMB120,000,000 (2021: RMB120,000,000) represented a private equity fund, of which the Group is a limited partner. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The private equity fund is managed by an independent professional fund manager approved by Asset Management Association of China for a period of 5 years.

13. TRADE PAYABLES

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

	2022	2021
	RMB'000	RMB'000
Within 3 months	104,492	69,719
3 to 6 months	1,302	6,779
6 to 12 months	809	742
Over 12 months	841	693
	107,444	77,933

The trade payables are non-interest-bearing.

14. CONVERTIBLE BONDS

On 5 November 2020, the Company issued convertible bonds due 2025 in the aggregate principal amount of HK1,550,000,000. The bonds are convertible at the option of the bondholders into ordinary shares on 16 December 2020 on the basis of the initial conversion price of HK\$10.40. The bonds are redeemable at the option of the bondholders on 5 November 2023 at 103.86% of their principal amount together with accrued but unpaid interest. Any convertible notes not converted will be redeemed on 19 November 2025 at 106.58% of its principal amount together with accrued but unpaid interest. The bonds carry interest at a rate of 1% per annum, which is payable half-yearly in arrears on 5 May and 5 November.

14. CONVERTIBLE BONDS (continued)

The convertible bonds comprise two components:

- a) The debt component was initially measured at fair value amounting to HK\$1,494,938,000 (equivalent to RMB1,258,139,000). It is subsequently measured at amortised cost using the effective interest method after considering the effect of the transaction costs.
- b) The derivative component comprises conversion options and early redemption options (not closely related to the debt component), which were initially measured at fair value with an amount of HK\$55,062,000 (equivalent to RMB46,341,000).

The total transaction costs of HK\$29,104,000 (equivalent to RMB24,494,000) that are related to the issue of the convertible bonds were allocated to the debt component exclusively in its initial measurement, and were included in the carrying amount of the debt component and amortised over the period of the convertible bonds using the effective interest method.

As at 31 December 2022, there has been no conversion of the convertible bonds. The Group partially redeemed the convertible bonds at a discount, with an aggregate par value of HKD1,056 million during 2022. The early redemption cost was approximately RMB887 million.

	Debt component	Embedded derivative component	Total
	RMB'000	RMB'000	RMB'000
Nominal value of convertible bonds issued in 2021	1,240,150	50,184	1,290,334
Interest expense	41,831	–	41,831
Interest paid	(12,844)	–	(12,844)
Exchange realignment	(35,784)	(1,432)	(37,216)
Gain arising on change of fair value	–	(14,474)	(14,474)
As at 31 December 2021	1,233,353	34,278	1,267,631
Interest expense	35,711	–	35,711
Interest paid	(10,430)	–	(10,430)
Exchange realignment	95,636	2,704	98,340
Early redemption	(914,591)	(22,856)	(937,447)
Gain arising on change of fair value	–	2,731	2,731
As at 31 December 2022	439,679	16,857	456,536

15. INTEREST-BEARING BANK BORROWINGS

	31 December 2022			31 December 2021		
	Effective Interest rate (%)	Maturity	RMB'000	Effective Interest rate (%)	Maturity	RMB'000
Bank borrowings – unsecured	2.05-2.5	2023	60,000	2.4	2022	50,000
Bank borrowings – secured (i)	2.1	2023	100,000	–	–	–
			160,000			50,000

Notes:

The Group's bank borrowings are secured by the following:

- (i) As of 31 December 2022, the Group's time deposits of RMB100,000,000 were pledged for the letter of credit.

16. SHARE CAPITAL

	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
Authorised:		
50,000,000,000 shares of USD0.000001 each (2021: 50,000,000,000 shares of USD0.000001 each)	<u>306</u>	<u>306</u>
Issued and fully paid:		
2,383,140,500 shares of USD0.000001 each (2021: 2,383,140,500 shares of USD0.000001 each)	<u>16</u>	<u>16</u>

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

	<u>Numbers of shares in issue</u>	<u>Share capital</u>	<u>Treasury shares</u>
		RMB'000	RMB'000
At 1 January 2020, 31 December 2020 and 1 January 2021	2,383,140,500	16	(263,525)
Repurchased of shares	–	–	(83,286)
Exercise of share-based awards	–	–	<u>5,366</u>
At 31 December 2021	<u>2,383,140,500</u>	<u>16</u>	<u>(341,445)</u>
At 31 December 2021 and 1 January 2022	2,383,140,500	16	(341,445)
Exercise of share-based awards	–	–	<u>16,986</u>
At 31 December 2022	<u>2,383,140,500</u>	<u>16</u>	<u>(324,459)</u>

17. EVENTS AFTER THE REPORTING PERIOD

As at the date of approval of the financial statements, no material events were undertaken by the Group subsequent to 31 December 2022.

OTHER INFORMATION

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

On November 5, 2020, the Company issued Convertible Bonds with a principal amount of HK\$1,550,000,000, which were listed and traded on the Hong Kong Stock Exchange and will mature on November 5, 2025. In 2022, in accordance with the terms and conditions of the Convertible Bonds, the Company repurchased by installments the Convertible Bonds with a principal amount of HK\$1,056,000,000 in total, representing 68.1% of the aggregate principal amount of the Convertible Bonds originally issued. The details of each repurchase of Convertible Bonds are set out below.

On April 8, 2022, the Company repurchased the Convertible Bonds with a principal amount of HK\$155,000,000 with the right to convert into 14,903,846 shares of the Company, representing 10.0% of the aggregate principal amount of the Convertible Bonds originally issued. For details, please refer to the Company's announcement dated April 11, 2022.

On July 14 and July 19, 2022, the Company repurchased the Convertible Bonds with a principal amount of HK\$105,000,000 with the right to convert into 10,489,510 shares of the Company, representing approximately 6.8% of the aggregate principal amount of the Convertible Bonds originally issued. For details, please refer to the Company's announcement dated July 19, 2022.

On August 24, 2022, the Company repurchased the Convertible Bonds with a principal amount of HK\$296,000,000 with the right to convert into 29,570,429 shares of the Company, representing approximately 19.1% of the aggregate principal amount of the Convertible Bonds originally issued. For details, please refer to the Company's announcement dated August 24, 2022.

On December 5, 2022, the Company repurchased the Convertible Bonds with a principal amount of HK\$135,000,000 with the right to convert into 13,486,513 shares of the Company, representing approximately 8.7% of the aggregate principal amount of the Convertible Bonds originally issued. For details, please refer to the Company's announcement dated December 5, 2022.

From December 6 to December 12, 2022, the Company repurchased the Convertible Bonds with an aggregated principal amount of HK\$80,000,000 with the right to convert into 7,992,008 shares of the Company, representing approximately 5.2% of the aggregate principal amount of the Convertible Bonds originally issued. For details, please refer to the Company's announcement dated December 12, 2022.

On December 13, 2022, the Company repurchased the Convertible Bonds with a principal amount of HK\$80,000,000 with the right to convert into 7,992,008 shares of the Company, representing approximately 5.2% of the aggregate principal amount of the Convertible Bonds originally issued. For details, please refer to the Company's announcement dated December 13, 2022.

On December 14, 2022, the Company repurchased the Convertible Bonds with a principal amount of HK\$173,000,000 with the right to convert into 17,282,717 shares of the Company, representing approximately 11.2% of the aggregate principal amount of the Convertible Bonds originally issued. For details, please refer to the Company's announcement dated December 14, 2022.

From December 28 to December 29, 2022, the Company repurchased the Convertible Bonds with an aggregated principal amount of HK\$32,000,000 with the right to convert into 3,196,803 shares of the Company, representing approximately 2.1% of the aggregate principal amount of the Convertible Bonds originally issued. For details, please refer to the Company's announcement dated December 29, 2022.

As of December 31, 2022 and at the date of this announcement, the aggregate principal amount of the Convertible Bonds remaining outstanding is HK\$494,000,000, representing 31.9% of the aggregate principal amount of the Convertible Bonds originally issued.

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company in 2022.

FINAL DIVIDEND

The Board did not recommend the distribution of a final dividend for the year ended December 31, 2022.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of eligibility to attend and vote at the annual general meeting of the Company (the "AGM"), the register of members of the Company will be closed from Thursday, June 1, 2023 to Tuesday, June 6, 2023 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the forthcoming AGM to be held on Tuesday, June 6, 2023, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. (Hong Kong time) on Wednesday, May 31, 2023.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the year ended December 31, 2022, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code for the year ended December 31, 2022.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the Code. As at the date of this announcement, the Audit Committee comprises three members, namely Mr. Chen Chen, Mr. Chan Kam Ching, Paul and Mr. Lu Weidong, our independent non-executive Directors. Mr. Chen Chen is the chairman of the Audit Committee, and is our independent non-executive Director possessing the appropriate professional qualifications.

The Audit Committee has reviewed and discussed the annual results for the year ended December 31, 2022. The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2022 as set out in this announcement have been agreed by the Group’s auditor, Ernst & Young, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Ernst & Young on this announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.zhouheiya.cn). The annual report will be dispatched to the shareholders of the Company and will be available on the website of the Stock Exchange and that of the Company in due course.

By order of the Board
Zhou Hei Ya International Holdings Company Limited
ZHOU Fuyu
Chairman

Hong Kong, March 31, 2023

As at the date of this announcement, the executive directors of the Company are Mr. ZHOU Fuyu, Mr. ZHANG Yuchen and Mr. WEN Yong; the non-executive director of the Company is Mr. PAN Pan; and the independent non-executive directors of the Company are Mr. CHAN Kam Ching, Paul, Mr. LU Weidong and Mr. CHEN Chen.