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Jiujiuwang Food International Limited

久久王食品国际有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1927)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Jiujiuwang Food International Limited (the “**Company**”) is pleased to announce the interim results of the Company and its subsidiaries (collectively, the “**Group**”, “**We**” and “**Our**”) for the six months ended 30 June 2022, together with the comparative figures for the corresponding period in 2021, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		For the six months ended 30 June	
	<i>Notes</i>	2022	2021
		RMB’000	RMB’000
		(unaudited)	(unaudited)
Revenue	4	182,544	190,350
Cost of sales		(131,270)	(128,971)
Gross profit		51,274	61,379
Other income and gain, net	5	1,280	824
Selling expenses		(19,345)	(15,181)
Administrative expenses		(12,388)	(22,919)
Finance costs	6	(6,304)	(6,262)
Profit before taxation	7	14,517	17,841
Taxation	8	(4,401)	(8,484)
Profit for the period		10,116	9,357

	For the six months ended	
	30 June	
	2022	2021
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Profit for the period attributable to owners of the Company	10,116	9,357
Items that may be reclassified subsequently to profit or loss:		
Exchange difference translation of foreign operations	<u>(912)</u>	<u>(510)</u>
Other comprehensive expense for the period, net of tax	<u>(912)</u>	<u>(510)</u>
Total comprehensive income for the period attributable to owners of the Company	<u>9,204</u>	<u>8,847</u>
Earnings per share attributable to owners of the Company		
Basic and diluted (RMB cents)	<i>10</i> <u>1.3</u>	<u>1.3</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	<i>Notes</i>	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	<i>11</i>	302,628	305,139
Right-of-use assets		44,951	22,828
Deferred tax assets		134	134
		<hr/> 347,713	<hr/> 328,101
Current assets			
Inventories		82,184	99,754
Trade receivables	<i>12</i>	121,540	114,339
Prepayments and other receivables	<i>13</i>	66,290	40,286
Cash and cash equivalents		27,804	36,197
		<hr/> 297,818	<hr/> 290,576
LIABILITIES			
Current liabilities			
Trade and other payables	<i>14</i>	27,101	22,393
Contract liabilities		1,529	1,128
Bank borrowings		206,805	213,410
Lease liabilities		10,732	–
Tax payables		1,326	1,702
		<hr/> 247,493	<hr/> 238,633
Net current assets		<hr/> 50,325	<hr/> 51,943
Total assets less current liabilities		<hr/> 398,038	<hr/> 380,044
Non current liability			
Lease liabilities		<hr/> 8,790	<hr/> –
Net assets		<hr/> 389,248	<hr/> 380,044
EQUITY			
Share capital	<i>15</i>	532	532
Reserves		388,716	379,512
Total equity		<hr/> 389,248	<hr/> 380,044

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (the “**Interim Financial Statements**”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with Hong Kong Accounting Standard (the “**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

The unaudited condensed consolidated interim financial statements are presented in thousands of Renminbi (“**RMB’000**”), unless otherwise stated.

The interim financial report has been prepared in accordance with same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

2. APPLICATION OF AMENDMENTS TO HKFRSs

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. OPERATING SEGMENT

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by the Group’s chief operating decision maker in order to allocate resources and assess performance of the segment. During the six months ended, the information reported to the executive directors, who are the chief operating decision makers for the purpose of resource allocation and assessment of performance, do not contain profit or loss information of each product line or geographical area and the executive directors reviewed the financial result of the Group as a whole report under HKFRSs.

The Group currently operates one operating segment which is revenue from sale of the confectionary products. Accordingly, the Group does not have separately reportable segments.

Geographical information

The Group's operations and non-current assets are located in the PRC. Information about the revenue based on the geographical locations of the customers are detailed below:

	For the six months ended	
	30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PRC	156,594	172,238
Asia (excluding PRC) (Note 1)	11,060	6,311
Europe (Note 2)	10,870	9,826
Others (Note 3)	4,020	1,975
	<u>182,544</u>	<u>190,350</u>

Notes:

- (1) Included Philippines, United Arab Emirates, Korea, Indonesia and Vietnam.
- (2) Included Germany, Poland, the United Kingdom, Lithuania, Denmark, Spain and France.
- (3) Included Australia, Argentina, Brazil, Ecuador and the United State of America.

Information about major customers

Revenue from major customers, contributing over 10% or more of the total sales of the Group during the six months ended 30 June 2022 and 2021 are as follow:

	For the six months ended	
	30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Customer A	29,959	40,023
Customer B	—*	21,348
	<u>29,959</u>	<u>61,371</u>

* Customer B does not contribute over 10% or more of the total sales of the Group for the six months ended 30 June 2022.

As at 30 June 2022 and 2021, 16.8% and 41.1% respectively of the Group's trade receivable were due from those customers.

4. REVENUE

Revenue represents the fair value of amounts received and receivable for goods sold by the Group to outside customers, less discount and other allowance for the period, and is analysed as follow:

	For the six months ended	
	30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Analysed by type of products		
OEM products	63,201	81,359
Own-branded products		
— Coolsa	100,685	91,320
— Lalabo	15,749	14,966
— Jiujiuwang	2,909	2,705
	<u>182,544</u>	<u>190,350</u>
Sale of good, recognised at a point in time		
	<u>182,544</u>	<u>190,350</u>

Transaction prices are fixed in respective contracts. Unsatisfied performance obligations at 30 June 2022 and 2021 have expected duration of less than one year and are thus not disclosed as permitted under HKFRS 15.

5. OTHER INCOME AND GAIN, NET

	For the six months ended	
	30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Bank interest income	39	56
Exchange gain	439	160
Rental income	13	13
Government grants	770	595
Others	19	—
	<u>1,280</u>	<u>824</u>
	<u>1,280</u>	<u>824</u>

6. FINANCE COSTS

	For the six months ended	
	30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest expenses on — bank borrowings wholly repayable within five years	6,304	6,262
	<u>6,304</u>	<u>6,262</u>

7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the six months ended	
	30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Cost of inventories recognised as expenses	101,924	102,828
Depreciation of property, plant and equipment	9,427	8,155
Depreciation of right-of-use assets	531	289
Employee benefit expenses (including directors' emoluments)	19,566	21,773
Listing expenses	–	15,924

8. TAXATION

	For the six months ended	
	30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
The taxation charge comprises:		
Current tax		
— PRC Enterprise Income Tax	4,401	8,484

Hong Kong

Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK\$2,000,000 will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising from Hong Kong during the period (2021: Nil).

The PRC

The PRC Enterprise Income Tax (“**PRC EIT**”) is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

Under the PRC Enterprise Income Tax Law (the “**EIT Law**”) and Implementation Regulations of the EIT Law, the tax rate of a PRC subsidiary is 25% from 1 January 2008 onwards.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

9. DIVIDENDS

The Board of Directors do not recommend the payment of any dividend for the six months ended 30 June 2022 (2021: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	For the six months ended	
	30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted loss per share	10,116	9,357
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	792,000	710,600

For the six months ended 30 June 2021, the weighted average number of ordinary shares are on the basis of 594,000,000 shares of the Company in issue, being the number of shares in issue immediately after the completion of capitalisation issue and the addition of 198,000,000 shares in issue pursuant to the Global Offering on 16 March 2021.

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existences during the six months ended 30 June 2022 and 2021.

11. PROPERTY, PLANT AND EQUIPMENT

As at 30 June 2022, the Group's buildings and plant and machinery with a carrying amounts of approximately RMB156,929,000 (31 December 2021: RMB162,961,000) respectively have been pledged as securing credit facilities granted to the bank.

During the six months ended 30 June 2022, the Group has paid RMB29,585,000 (2021: RMB19,581,000) on acquisition on property, plant and equipment.

12. TRADE RECEIVABLES

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade receivables	122,076	114,875
Less: allowance for expected credit losses	(536)	(536)
	<u>121,540</u>	<u>114,339</u>

The Group's trade receivables are attributable to a number of independent customers with credit terms. The Group normally allows a credit period of 0 days to 180 days to its customers.

Ageing analysis of trade receivables (net of allowance for expected credit losses) presented, based on invoice date, as at the end of each of the reporting periods is as follows:

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Within 30 days	39,425	31,964
31–60 days	29,389	26,466
61–90 days	15,979	22,012
91–180 days	34,941	33,228
181–365 days	1,806	669
Over 365 days	–	–
	<u>121,540</u>	<u>114,339</u>

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defined credit limit to each customer on an individual basis. Credit limited attributed to customers are reviewed when necessary. All of the Group's trade receivables that are past due but not impaired have no history of defaulting on repayment. As at 30 June 2022 and 2021, the Group does not charge interest nor hold any collateral over the balances.

Movement in the allowance for expected credit losses on trade receivables

	<i>RMB'000</i>
Balance as at 1 January 2021	480
Net allowance for expected credit losses	<u>56</u>
Balance as at 31 December 2021 and 1 January 2022	536
Net allowance for expected credit losses	<u>–</u>
Balance as at 30 June 2022	<u>536</u>

13. PREPAYMENTS AND OTHER RECEIVABLES

	As at	
	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Prepayment (<i>Note</i>)	66,047	39,603
Other receivables	243	683
	<u>66,290</u>	<u>40,286</u>

Note: Include in prepayments, approximately RMB59,396,000 (31 December 2021: RMB34,103,000) represented the prepayments for purchase of raw material as at 30 June 2022.

14. TRADE AND OTHER PAYABLES

The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period.

	As at	
	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Within 30 days	2,738	4,152
31–60 days	1,046	1,499
61–90 days	756	–
Total trade payables	4,540	5,651
Accruals and other payables	9,757	9,161
Amount due to a director	12,804	7,581
	<u>27,101</u>	<u>22,393</u>

Credit periods of trade payables normally granted by its suppliers were up to 60 days.

15. SHARE CAPITAL

	30 June 2022	31 December 2021	30 June 2022	31 December 2021
	<i>Number '000</i>	<i>Number '000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(audited)	(unaudited)	(audited)
Authorised:				
As at 1 January	2,000,000	515	200	52
Share subdivision (<i>Note i</i>)	–	1,999,485	–	148
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2022/31 December 2021	2,000,000	2,000,000	200	200
Issued and fully paid:				
As at 1 January	792,000	515	80	52
Share subdivision (<i>Note i</i>)	–	514,949	–	–
Shares issued under the Capitalisation Issue (<i>Note ii</i>)	–	78,536	–	8
Shares issued pursuant to the Global Offering (<i>Note iii</i>)	–	198,000	–	20
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2022/31 December 2021	792,000	792,000	80	80
	<hr/>	<hr/>	<hr/>	<hr/>
Show in the consolidated statement of financial position (<i>in RMB'000</i>)			532	532
			<hr/>	<hr/>

Notes:

- (i) On 10 February 2021, the Company resolved that, among others, (i) the authorised share capital of our Company be increased from US\$51,546.4 to US\$200,000 by the creation of an additional 1,484,536 Shares of US\$0.1 each ranking pari passu in all aspects with the existing issued Shares and (ii) immediately thereafter all the issued and unissued Shares at a par value of US\$0.1 each be subdivided into 1,000 Shares at a par value of US\$0.0001 each such that the authorised share capital of our Company shall be US\$200,000 divided into 2,000,000,000 Shares at a par value of US\$0.0001 each and the issued share capital of our Company shall be US\$51,546.4 divided into 515,464,000 Shares at a par value of US\$0.0001 each.
- (ii) Pursuant to a written resolution of the shareholders of the Company (the “Shareholders”) passed on 18 February 2021, subject to the share premium account of the Company being credited as a result of the global offering of the Company’s shares, the Directors were authorised to allot and issue a total of 78,536,000 shares credited as fully paid at par to the then Shareholders by way of capitalisation of an amount of approximately HK\$61,000 (equivalent to RMB51,000) standing to the credit of the share premium account of the Company.
- (iii) On 16 March 2021, the Company issued 198,000,000 ordinary shares of US\$0.0001 each at a price of HK\$0.75 each pursuant to the global offering. Gross proceeds amounting to HK\$148,500,000 (equivalent to approximately RMB124,389,000) was raised from the global offering, of which approximately HK\$156,000 (equivalent to approximately RMB131,000) and HK\$148,344,000 (equivalent to approximately RMB124,258,000) was credited to the share capital and share premium account respectively. Listing expenses of approximately RMB32,185,000 was deducted from the share premium account.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

We are a confectionary products manufacturer in the People's Republic of China (the "PRC"). We manufacture and sell confectionary products, including gum-based candies, tablet candies, aerated candies and hard candies. We generally source raw materials from our suppliers, manufacture and package our confectionary products at our in-house production facilities, and either (i) sell our products under brands owned or licenced by our OEM customers in the PRC and to overseas countries or (ii) sell our products under our own brands, namely Coolsa (酷莎), Lalabo (拉拉卜) and Jiujiuwang (久久王), to distributors and end-consumers in the PRC. We own and operate our production facilities for manufacture of our confectionary products with a view to control our product quality, production costs and production schedule directly. Our factory is located in Jinjiang City, Fujian Province with a large site area, with number of production lines to produce a large number of tones of our products.

During the six months ended 30 June 2022, the Group recorded a profit of approximately RMB10.1 million as compared to a profit of approximately RMB9.4 million for the corresponding period in 2021. The increase was mainly due to the net effect of (i) the decrease in Listing expenses of approximately RMB15.9 million, (ii) increase in research and development expenses for developing new products of approximately RMB4.7 million and (iii) the decrease in gross profit of approximately RMB10.1 million, which was in line with the decrease in revenue for the same period.

Since the outbreak of the epidemic caused by the COVID-19, major cities in the PRC have taken emergency public health measures. Our Group has implemented various measures in response to the COVID-19 epidemic. Looking forward, we will endeavor to strengthen the development of our existing business and to provide steady return as well as growth prospect for the Shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately 4.1% from approximately RMB190.4 million for the six months ended 30 June 2021 to approximately RMB182.5 million for the six months ended 30 June 2022. The decrease in revenue was mainly attributable to the decrease in OEM products as a result of the decrease in our sales of the confectionary products to Gary & Bros Confectionary.

Cost of sales

The Group's cost of sales mainly comprised of (i) direct materials costs; (ii) production costs; and (iii) direct labour costs. For the six months ended 30 June 2022 and 2021, the cost of sales amounted to approximately RMB131.3 million and RMB129.0 million, respectively, representing an increase of approximately 1.8%, which was mainly due to the increase in production costs arising from the increase in depreciation expense and other repair or electricity fee.

Gross profit

The Group's gross profit, which is equal to the revenue minus cost of sales, for the six months ended 30 June 2022 was approximately RMB51.3 million, representing a decrease of approximately 16.4% from approximately RMB61.4 million for the six months ended 30 June 2021. The decrease in gross profit was in line with the decrease in revenue for the same period. The Group's gross profit margin amounted to approximately 28.1% and 32.2% for the six months ended 30 June 2022 and 2021, respectively, which was mainly attributable to the increase in depreciation expenses due to the addition of property, plant and equipment and also the offering of lower gross profit margin for new products in order to promote those products.

Other income and gain, net

The Group's other income and gain, net increased from approximately RMB0.8 million for the six months ended 30 June 2021 to approximately RMB1.3 million for the six months ended 30 June 2022. The increase in other income and gain, net was mainly due to the increase in exchange gain and government grants.

Selling expenses

The Group's selling expenses mainly comprised of marketing and promotion expenses, staff costs, travelling expenses, and office expenses and others. The Group's selling expenses increased from approximately RMB15.2 million for the six months ended 30 June 2021 to approximately RMB19.3 million for the six months ended 30 June 2022. The increase in selling expenses was mainly due to the increase in marketing and promotion activities to our products during the period.

Administrative expenses

The Group's administrative expenses mainly comprised of depreciation and amortisation expenses, taxes and stamp duty, staff costs, Listing expenses and office expenses. The Group's administrative expenses decreased from approximately RMB22.9 million for the six months ended 30 June 2021 to approximately RMB12.4 million for the six months ended 30 June 2022, representing a decrease of approximately 45.9%. The decrease in administrative expenses was mainly attributable to the net effect of (i) the decrease of Listing expenses of approximately RMB15.9 million and (ii) the increase in research and development expenses for developing new products of approximately RMB4.7 million during the period.

Income tax expenses

The Group's income tax expenses were approximately RMB8.5 million and RMB4.4 million for the six months ended 30 June 2021 and 2022, respectively. The decrease was mainly due to the decrease in taxable profit, after excluding non-deductible Listing expenses.

Finance costs

The Group's finance costs remained unchanged at approximately RMB6.3 million for the six months ended 30 June 2021 and 2022.

Profit

The Group recorded a profit of approximately RMB10.1 million for the six months ended 30 June 2022 as compared to a profit of approximately RMB9.4 million for the corresponding period in 2021. The increase was mainly due to the net effect of (i) the decrease in administrative expenses of approximately RMB10.5 million during the period; and (ii) the decrease in gross profit of approximately RMB10.1 million, which was in line with the decrease in revenue for the same period.

Use of net proceeds

The net proceeds (the “**Net Proceeds**”) from the Listing, after deducting the underwriting fees and commissions and estimated expenses paid by the Company in connection thereto, were approximately HK\$75.7 million. After the Listing, these proceeds were and will be used for the purposes in accordance with the future plans as set out in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 26 February 2021 (the “**Prospectus**”).

The Net Proceeds as at 30 June 2022 were used as follows:

	Allocation of the IPO Proceeds <i>HK\$ million</i>	Utilised IPO Proceeds as at 30 June 2022 <i>HK\$ million</i>	Unutilised IPO Proceeds as at 30 June 2022 <i>HK\$ million</i>	Expected timeline for utilising the remaining unused Net Proceeds <i>(Note)</i>
Expansion of production capacities	40.3	38.7	1.6	December 2023
Replacement of machines in existing production lines	20.1	20.1	–	N/A
Partial repayment of bank loans	6.3	6.3	–	N/A
Enhancement of marketing efforts	6.7	6.7	–	N/A
General working capital	2.3	2.3	–	N/A
	<u>75.7</u>	<u>74.1</u>	<u>1.6</u>	

Note:

(a) The unused proceeds are deposited in a licensed bank in the PRC.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Saved as disclosed in the Prospectus, the Group did not have other plans for material investments and capital assets as at 30 June 2022.

LIQUIDITY AND FINANCIAL RESOURCES

Capital structure

There has been no material change in the capital structure of the Company for the six months ended 30 June 2022.

Cash position

As at 30 June 2022, the cash and cash equivalents of the Group amounted to approximately RMB27.8 million, representing a decrease of approximately 23.2% from approximately RMB36.2 million as at 31 December 2021. The decrease was mainly due to the purchase of property, plant and equipment.

Borrowings

As at 30 June 2022, the total borrowings of the Group, all of which were denominated in RMB, amounted to approximately RMB206.8 million (as at 31 December 2021: approximately RMB213.4 million). Among the borrowings,

1. approximately RMB25.0 million (as at 31 December 2021: RMB31.0 million) was derived from the bank borrowings from the PRC bank which bears interest rate at 6.09% and was secured by corporate guarantee by independent third parties.
2. approximately RMB118.6 million (as at 31 December 2021: RMB119.0 million) was derived from the bank borrowings from the PRC bank which bears interest rate ranging from 3.35%–5.87% and was secured by right-of-use assets and property, plant and equipment of the Company.
3. approximately RMB26.5 million (as at 31 December 2021: RMB26.5 million) was derived from the bank borrowings from the PRC bank which bears interest rate at 5.22% and was secured by corporate guarantee by independent third parties and personal guarantee by the Directors and related parties of the Company. The personal guarantee by the Directors and related parties of the Company was released on 17 March 2021. During the period, the bank loan was renewed and it was secured by the personal guarantee by the Directors and related parties of the Company.
4. approximately RMB31.8 million (as at 31 December 2021: RMB32.0 million) was derived from the bank borrowings from PRC bank which bears interest rate at 5.5% and was secured by a subsidiary of the Company.

5. approximately RMB4.9 million (as at 31 December 2021: RMB4.9 million) was derived from bank borrowings from PRC bank which bears interest rate at 5.0% and was secured by personal guarantee by the Directors and related parties of the Company. The guarantee was released on 17 March 2021. During the period, the bank loan was renewed and it was secured by the personal guarantee by the Directors and related parties of the Company.

Pledge of assets

As at 30 June 2022, the Group had pledged certain assets to secure facilities granted to the Group included (i) the right-of-use assets with carrying amount of RMB22,538,000 (as at 31 December 2021: RMB22,828,000); (ii) the building with carrying amount of RMB112,436,000 (as at 31 December 2021: RMB114,470,000); and (iii) plant and machinery with carrying amount of RMB44,493,000 (as at 31 December 2021: RMB48,491,000).

Gearing ratio

As at 30 June 2022, the gearing ratio of the Group was approximately 53.4% (as at 31 December 2021: approximately 56.2%). The decrease was mainly due to the repayment of bank borrowings during the period. The gearing ratio is calculated based on the bank borrowings divided by the total equity of the Group at the end of the respective period.

DIVIDEND

The Board has resolved not to declare the payment of a dividend for the six months ended 30 June 2022 (2021: Nil).

COMMITMENTS

As at 30 June 2022, the Group had capital commitments of approximately RMB1.2 million in respect of the acquisition of property, plant and equipment.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

There was no other material acquisition or disposal of subsidiaries, associates or joint ventures during the period between 31 December 2021 and 30 June 2022.

SIGNIFICANT INVESTMENTS HELD

As at 30 June 2022, the Group did not hold any significant investments.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group had no significant contingent liabilities (as at 31 December 2021: Nil).

FOREIGN EXCHANGE EXPOSURE AND RELATED HEDGES

As at 30 June 2022, the Group's majority of the assets and liabilities, and income and expenses were denominated in Renminbi and Hong Kong Dollar. The Group had no significant exposure to fluctuations in exchange rates or under foreign exchange contracts, interest, currency swaps or other financial derivatives.

TREASURY AND RISK MANAGEMENT

The Directors will continue to follow a prudent policy in managing the Group's cash and maintaining a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities.

As at 30 June 2022, the Group's credit risk is primarily attributable to trade receivables, other receivables and cash and cash equivalents.

As at 30 June 2022 and 31 December 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arose from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Trade receivables

In order to minimise the credit risk, the management of the Group has delegated a team to be responsible for the determination of credit limits and credit approvals. The Group's monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts.

In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on credit card trade receivables individually and the remaining trade receivables are grouped using a provision matrix with past due status grouping. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Other receivables

The management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information under ECL model upon application of HKFRS 9. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

Cash and cash equivalents

The Group deposited its cash with approved and reputable banks. Bankruptcy or insolvency of the banks may cause the Group's right with respect to cash and cash equivalents held to be delayed or limited. The Directors monitor the credit rating of these banks on an ongoing basis, and considers that the Group's exposure to credit risk was minimal.

The Group does not have any other significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

PROSPECT

Our business objective is to strive to achieve sustainable growth and further enhance our position as a manufacturer of confectionary products in the PRC. We plan to leverage our competitive strengths and implement the following strategies: (i) expansion of production capacities; (ii) replacement of machines in our existing production lines; (iii) enhancement of marketing efforts, increase of sales through e-commerce channels and expansion of our distribution network; and (iv) expansion and enhancement of our product offerings through continuous product development efforts.

Historically, we are a confectionary products manufacturer in the PRC. We have focused on manufacturing and selling confectionary products, including gum-based candies, tablet candies, aerated candies and hard candies. We own and operate our production facilities for the manufacturing of our confectionary products with a view to control our product quality, production costs and production schedule directly. We believe that production facilities, product development and quality control are crucial to our competitiveness and success. Thus, we will put significant emphasis on purchasing and introducing new production lines, purchasing new equipment and machines for replacement of existing machines and equipment. We will also emphasis on product development and will commit to enhancing product quality to cater for changing consumer preferences and enhancing our product offerings.

One of our business strategies is to leverage on our production and product development capacities and experience in the manufacture and sale of our own-branded products. We manufacture and sell our confectionary products under brands owned or licenced by OEM customers in the PRC and to overseas countries. To enhance our marketing, we will engage a marketing firm for the promotion of our brands to strengthen our market position in the confectionary industry in the PRC and enhance our brand recognition and awareness, so as to increase our sales through e-commerce channel and enhance our distribution network.

We believe that the above business strategies will take advantage of the business opportunities and explore new markets with significant growth potential in the PRC. Looking ahead, the Group will endeavor to strengthen the development of its businesses to provide steady return as well as growth prospects for the Shareholders.

CORPORATE GOVERNANCE PRACTICES

The Company is firmly committed to maintaining and ensuring a high level of corporate governance standards and will review and improve the corporate governance practices and standards constantly. The Company has adopted and has complied with all the applicable code provisions of the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules during the period, except for the deviations of paragraph A.2.1 of the CG Code, which is explained in the paragraph below.

Paragraph A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Currently, Mr. Zheng Zhenzhong (“**Mr. Zheng**”) is our chairman and also the chief executive officer of our Company and he has been managing our Group’s business and supervising the overall operations of our Group since its establishment. Having considered (i) the nature and extent of our Group’s operations; (ii) Mr. Zheng’s in-depth knowledge and experience in the confectionary industry and familiarity with the operations of our Group which is beneficial to the management and business development of our Group; and (iii) all major decisions are made in consultation with members of our Board and relevant Board committees, which consist of three independent non-executive Directors on our Board offering independent perspectives, our Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers and authorities between our Board and the management of our Company and that it is in the best interest of our Group to have Mr. Zheng take up both roles. Our Board will continue to review and consider splitting the roles of the chairman of our Board and the chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Appendix 10 to the Listing Rules. The Company periodically issues notices to the Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results of the Group. Having made specific enquiry to the Directors, all Directors have complied with the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors throughout the period under review. The Company was not aware of any non-compliance in this respect during the six months ended 30 June 2022.

DISCLOSURE OF DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B (1) OF THE LISTING RULES

During the six months ended 30 June 2022, there were no changes to the Directors' information that are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

COMPETING BUSINESS

Save as disclosed in the Prospectus and this announcement, the Directors are not aware of any business or interest of the Directors or the controlling Shareholders or any of their respective close associates (as defined in the Listing Rules) that compete or may compete with the business of the Group and any other conflict of interests which any such person has or may have with the Group during the six months ended 30 June 2022.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "**Share Option Scheme**") on 18 February 2021. During the six months ended 30 June 2022, no option was granted, exercised, cancelled or lapsed under the Share Option Scheme. The principal terms of the Share Option Scheme are summarised as follows.

1. Purpose

The purpose of the Share Option Scheme is to enable the Group to grant options to the Eligible Participants (as defined in below) as incentives or rewards for their contribution to the Group and to provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the Group's objectives.

2. Who may join

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph 7 below to the following persons (“**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any Directors (including independent non-executive Directors) of our Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:
 - (aa) contribution to the development and performance of our Group;
 - (bb) quality of work performed for our Group;
 - (cc) initiative and commitment in performing his/her duties; and
 - (dd) length of service or contribution to our Group.

3. Maximum number of the Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue on the date on which our Shares were listed and from which dealings therein were permitted to take place on the Stock Exchange (i.e. 16 March 2021) (but taking no account of any Shares which may be issued under the exercise of the Over-allotment Option), being 79,200,000 Shares (the “**Scheme Limit**”), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject

to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as at the date of the approval by our Shareholders in general meeting; and/or
- (ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with the paragraph headed “(r) Effect of alterations to capital” on page VI-28 of the Prospectus whether by way of capitalisation issue, rights issue, sub-division or consolidation of shares or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

As at the date of this announcement, no Share options have been granted by the Company since the adoption of the Share Option Scheme and the outstanding number of Share options available for grant under the Scheme is 79,200,000 Share options to subscribe for the Shares, representing approximately 10% of the issued share capital of the Company. As such, no share options have been exercised, cancelled or lapsed during the period.

4. Limit for each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other scheme of our Company but subsequently cancelled to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules.

5. Exercise of an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The minimum period for which an option must be held before it can be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme by the Shareholders of our Company (the “**Adoption Date**”). Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the Adoption Date.

6. Acceptance of an offer of options

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer for the grant of an option to subscribe for Shares granted pursuant to the Share Option Scheme may be accepted by an Eligible Participant in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option by such Eligible Participant. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to the paragraph headed “(z) Obtaining necessary consent” on page VI-31 of the Prospectus, an option shall be exercisable in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given.

Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate issued by the auditors to our Company or the independent financial adviser, our Company shall accordingly allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee share certificates in respect of the Shares so allotted. The exercise of any option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company.

7. Subscription price

The subscription price of a Share in respect of any option granted under the Share Option Scheme shall, subject to any adjustments made in accordance with the paragraph headed “(r) Effect of alterations to capital” on page VI-28 of the Prospectus, be at the absolute discretion of the Board, provided that it shall be not less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the ordinary shares of the Company for the six months ended 30 June 2022.

EVENT AFTER REPORTING PERIOD

There has been no significant event that affected the Group after 30 June 2022 and up to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the required standard of dealings, as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the Directors in respect of the Shares. Having made specific enquiry with all the Directors, all Directors have confirmed that they have complied with the required standard of dealing and the code of conduct for securities transactions by the Directors during the six months ended 30 June 2022.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”), comprising three independent non-executive Directors, namely Mr. Wu Shiming, Mr. Wang Linan and Mr. Chen Congming, together with the management of the Company, have reviewed the accounting principles and policies adopted by the Group and discussed internal controls and financial reporting matters and the unaudited consolidated financial statements for the six months ended 30 June 2022. The Audit Committee has also reviewed this announcement and is of the opinion that such financial statements of the Group for the six months ended 30 June 2022 comply with the applicable accounting standards and the Listing Rules and that adequate disclosures have been made.

On behalf of the Board
Zheng Zhenzhong
Chairman and executive Director

Hong Kong, 24 August 2022

As at the date of this announcement, the Board comprises Mr. Zheng Zhenzhong, Mr. Zheng Guosi and Mr. Chen Kan as executive Directors, and Mr. Wang Linan, Mr. Wu Shiming and Mr. Chen Congming as independent non-executive Directors.