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HUABAO INTERNATIONAL HOLDINGS LIMITED

華寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

PROFIT WARNING

This announcement is made by Huabao International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The board (the “**Board**”) of directors of the Company wishes to inform shareholders (the “**Shareholders**”) and potential investors of the Company that, based on a preliminary review of the Group’s unaudited consolidated management accounts for the year ended 31 December 2022 (the “**Year**”) and other information currently available to the Board, the Group is expected to record a loss before tax of approximately RMB541 million to RMB720 million for the Year whereas the Group recorded profit before tax of approximately RMB1,147 million for the corresponding period last year.

The loss for the Year was primarily due to 1) an impairment loss on goodwill of the cash-generating unit (“**CGU**”) of the reconstituted tobacco leaves (“**RTL**”) of the tobacco raw materials business segment which is expected to be approximately in the range from RMB297 million to RMB328 million (2021: RMB293 million); and 2) an impairment loss of the CGU of Jiahao Foodstuff Limited and its subsidiaries (“**Jiahao Group**”), principally engaged in the production, sales, marketing and distribution of condiment products in China which is expected to be approximately in the range from RMB1,149 million to RMB1,205 million (including approximately RMB614 million impairment loss on goodwill has been recognised in the 2022 interim results) (2021: Nil).

If, without taking into account the above impairment losses on goodwill of RTL CGU and Jiahao Group CGU, the Group’s profit before tax for the Year was approximately in the range from RMB813 million to RMB905 million, representing a drop of approximately 37.2% to 43.6% as compared with the corresponding period last year (2021: RMB1,440 million (without taking into account of the impairment loss on goodwill of RMB293 million)).

The reasons for RTL CGU’s goodwill impairment

Based on the unaudited management accounts of the Group, revenue and operating profit of the Group’s RTL CGU for the Year decreased by approximately 8.1% and 34.9%, to approximately RMB323 million and RMB45 million respectively, as compared with the corresponding period last year.

The Group noticed that the impact of the oversupply in the traditional RTL industry continued in year 2022 which imposed pressure on the revenue and gross profit margin of RTL CGU for the Year, resulting in a decline in the operating profit of RTL CGU for the Year. Considering the sluggish demand in the traditional RTL industry for the past few years and based on the applicable accounting principles on a prudent basis, the Group adopted a conservative forecast of the future sales of the traditional RTL with the expectation that the RTL CGU will incur an impairment loss on goodwill.

Accordingly, the management of the Group, with the assistance of an independent valuer, has reviewed and reassessed the key assumptions used in determining the recoverable amounts of the CGU of RTL. Based on the preliminary assessment of the Group, an impairment loss on goodwill on RTL CGU is expected to be approximately in the range from RMB297 million to RMB328 million.

The reasons for Jiahao Group CGU's goodwill impairment

Reference is made to the Group's 2022 interim report, the Group considered that the recovery and subsequent development of the catering industry would be below the Group's expectation as at 31 December 2021 and would affect the subsequent performance of the condiment business. In accordance with prudent and appropriate accounting principles, the management performed an impairment test on Jiahao Group CGU and recognised an impairment of goodwill of approximately RMB614 million for the six months ended 30 June 2022.

Considering the resurgent of the pandemic in the PRC in the fourth quarter of 2022 which affected the catering industry significantly and the Jiahao Group's revenue and operating profit in the second half of 2022 did not meet expectations of the management as per 2022 interim report, the Group, with the assistance of an independent valuer, further reviewed and reassessed the key assumptions used in determining the recoverable amount of the Jiahao Group CGU. Based on the preliminary assessment of the Group, an additional impairment loss on goodwill on Jiahao Group CGU is expected to be approximately in the range from RMB535 million to RMB591 million.

The above preliminary goodwill impairment assessment was made based on the applicable accounting principles on a prudent basis which is subject to change. The impairment loss on goodwill is a non-cash item and does not have an impact on the Group's cash flows.

The Company is currently conducting a routine annual assessment, including, for impairment on other assets and changes in fair value of financial assets as of 31 December 2022. Should there be any further material impact on the estimated profit or loss of the Company, further announcement(s) will be made.

Annual Results for the year ended 31 December 2022 to be published by end of March 2023

The Company is still in the process of finalising the consolidated financial statements of the Group for the year ended 31 December 2022. The information contained in this announcement is only based on a preliminary assessment made by the Board with reference to the Group's unaudited consolidated management accounts for the Year and other information currently available, which may be subject to change upon further review. Shareholders and potential investors of the Company are advised to refer to the details in the annual results announcement of the Company for the year ended 31 December 2022 which is expected to be published before end of March 2023.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company , avoid undue reliance on such information, and to seek professional advice from their own professional or financial advisers when in doubt.

By Order of the Board
Huabao International Holdings Limited
POON Chiu Kwok
Executive Director

Hong Kong, 10 February 2023

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

* *For identification purposes only*