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燕之屋
YAN PALACE

XIAMEN YAN PALACE BIRD'S NEST INDUSTRY CO., LTD.

廈門燕之屋燕窩產業股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1497)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2023

The board (the “**Board**”) of directors (the “**Directors**”) of Xiamen Yan Palace Bird’s Nest Industry Co., Ltd. (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2023, together with the comparative figures for the year ended December 31, 2022, as follows:

FINANCIAL HIGHLIGHTS

- Our revenue increased by 13.5% from RMB1,729.9 million for the year ended December 31, 2022 to RMB1,964.2 million for the year ended December 31, 2023.
- Our gross profit increased by 13.3% from RMB878.3 million for the year ended December 31, 2022 to RMB994.9 million for the year ended December 31, 2023.
- Our net profit increased by 2.8% from RMB205.9 million for the year ended December 31, 2022 to RMB211.6 million for the year ended December 31, 2023.
- Our adjusted net profit (non-IFRS measure)⁽¹⁾ increased by 15.8% from RMB211.1 million for the year ended December 31, 2022 to RMB244.4 million for the year ended December 31, 2023.

Note:

- (1) Adjusted net profit (non-IFRS measure) represents profit and total comprehensive income for the year, adjusted to add back equity-settled share-based payment expenses and listing expenses that is recognised in the consolidated statement of profit or loss and other comprehensive income during the year less related income tax. Equity-settled share-based payment expenses are adjusted for as they are non-cash in nature and were not expected to result in future cash payments. The Directors believe that the non-IFRS measure facilitates comparisons of operating performance from year to year and company to company by eliminating potential impacts of certain items.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2023

(Expressed in Renminbi)

	<i>Note</i>	2023 RMB'000	2022 <i>RMB'000</i>
Revenue	2	1,964,237	1,729,945
Cost of sales		<u>(969,321)</u>	<u>(851,693)</u>
Gross profit		994,916	878,252
Other net income	3	30,502	27,692
Selling and distribution expenses		(563,283)	(503,879)
Administrative expenses		(159,506)	(111,543)
Research and development expenses		<u>(26,384)</u>	<u>(24,320)</u>
Profit from operations		276,245	266,202
Finance costs	4(a)	<u>(2,919)</u>	<u>(1,636)</u>
Profit before taxation	4	273,326	264,566
Income tax	5	<u>(61,738)</u>	<u>(58,688)</u>
Profit and total comprehensive income for the year		<u>211,588</u>	<u>205,878</u>
Attributable to:			
Equity shareholders of the Company		201,218	191,840
Non-controlling interests		<u>10,370</u>	<u>14,038</u>
Profit and total comprehensive income for the year		<u>211,588</u>	<u>205,878</u>
Earnings per share			
Basic and diluted (RMB)	6	<u>0.46</u>	<u>0.44</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2023

(Expressed in Renminbi)

	<i>Note</i>	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment		189,972	87,782
Intangible assets		1,280	1,275
Goodwill		75,165	75,165
Deferred tax assets		34,371	36,130
Other non-current assets		14,698	4,679
		<u>315,486</u>	<u>205,031</u>
Current assets			
Financial assets measured at fair value through profit or loss		–	4,996
Inventories		360,362	271,795
Trade and other receivables	7	120,297	89,459
Prepayments		118,168	54,655
Prepaid taxes		10,513	–
Restricted bank deposits		8,074	1,600
Cash and cash equivalents		537,093	350,818
		<u>1,154,507</u>	<u>773,323</u>
Current liabilities			
Trade and other payables	8	260,107	239,673
Contract liabilities		225,303	176,450
Lease liabilities		26,391	15,657
Other current liabilities		28,381	23,274
Current taxation		19,938	38,091
		<u>560,120</u>	<u>493,145</u>
Net current assets		<u>594,387</u>	<u>280,178</u>
Total assets less current liabilities		<u>909,873</u>	<u>485,209</u>
Non-current liabilities			
Lease liabilities		111,287	11,264
Deferred tax liabilities		1,659	1,935
		<u>112,946</u>	<u>13,199</u>
NET ASSETS		<u>796,927</u>	<u>472,010</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

at 31 December 2023

(Expressed in Renminbi)

	<i>Note</i>	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
CAPITAL AND RESERVES			
Share capital	<i>9(b)</i>	93,100	86,700
Reserves		676,571	367,696
Total equity attributable to equity shareholders of the Company		769,671	454,396
Non-controlling interests		27,256	17,614
TOTAL EQUITY		796,927	472,010

NOTES

(Expressed in Renminbi unless otherwise indicated)

1 Base of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable IFRS Accounting Standards, which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain amendments to IFRS Accounting Standards that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2023 comprise Xiamen Yan Palace Bird’s Nest Industry Co., Ltd. (the “Company”) and its subsidiaries (together referred to as the “Group”).

The measurement basis used in the preparation of the financial statements is the historical cost basis except for certain financial assets measured at their fair value.

The consolidated financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousand. All of the companies comprising the Group are operating in the People’s Republic of China (“PRC”) and their functional currency is RMB, hence, RMB is used as the presentation currency of the Group.

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) ***Changes in accounting policies***

The Group has applied the following new and amended IFRS Accounting Standards issued by the IASB to these financial statements for the current accounting period:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 1, *Presentation of financial statements* and IFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new and amended IFRS Accounting Standards are discussed below:

IFRS 17, Insurance contracts

IFRS 17, which replaces IFRS 4, sets out the recognition, measurement, presentation and disclosure requirements applicable to issuers of insurance contracts. The standard does not have a material impact on these financial statements as the Group does not have contracts within the scope of IFRS 17.

Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the Group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

Amendments to IAS 1, Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

Amendments to IAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under IAS 12.

Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (“OECD”) (income tax arising from such tax laws is hereafter referred to as “Pillar Two income taxes”), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax including the estimated tax exposure to Pillar Two income taxes. The amendments are immediately effective upon issuance and require retrospective application. The amendments do not have a material impact on these financial statements as the Group operates in Chinese Mainland, which has not enacted or substantively enacted new tax laws by 31 December 2023 to implement the Pillar Two model rules published by the OECD.

2 Revenue and segment reporting

(a) Revenue

The principal activities of the Group are the development, production and sale of edible bird’s nest products. Further details regarding the Group’s principal activities are disclosed in note 2(b).

Disaggregation of revenue from contracts with customers by sales channel is as follows:

	2023	2022
	RMB’000	RMB’000
Revenue from contracts with customers within the scope of IFRS 15		
Offline channels		
– Sales to offline distributors	509,035	477,525
– Direct sales to offline customers	351,170	314,466
Online channels		
– Direct sales to online customers	824,397	695,265
– Direct sales to E-commerce platforms	262,886	227,071
– Sales to online distributors	16,749	15,618
	1,964,237	1,729,945

The revenue of the Group is mainly generated from sales of edible bird’s nest products, which is recognised at a point in time.

The Group’s customer base is diversified and includes one customer with whom transactions have exceeded 10% of the Group’s revenues. In 2023, revenues from sales of edible bird’s nest products to the customer, including sales to entities which are known to the Group to be under common control with the customer, amounted to approximately RMB212,051,000 (2022: RMB189,036,000).

The Group has applied the practical expedient in paragraph 121(a) of IFRS 15 to its sales contracts for edible bird’s nest products that had an original expected duration of one year or less and does not disclose the information related to the aggregated amount of the transaction price allocated to the remaining performance obligations.

(b) Segment reporting

The Group manages its businesses by sales channel categories. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Direct sales to online customers: this segment engaged in sales of edible bird's nest products to retail customers through online platform.
- Direct sales to offline customers: this segment engaged in sales of edible bird's nest products to retail customers in brick-and-mortar stores.
- Sales to offline distributors: this segment engaged in sales of edible bird's nest products to offline distributors.
- Direct sales to E-commerce platforms: this segment engaged in sales of edible bird's nest products to online platforms.
- Sales to online distributors: this segment engaged in sales of edible bird's nest products to online distributors.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and direct expenses incurred by those segments respectively. The measure used for reporting segment result is gross profit which is calculated based on revenue less cost of sales for the relevant segment. No inter-segment sales have occurred during the year. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The Group's other operating income and expenses, such as other net income, selling and distribution expenses, administrative expenses, research and development expenses, finance costs, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, other operating income and expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2023 and 2022 is set out below.

	2023					
	Direct sales to online customers	Direct sales to offline customers	Sales to offline distributors	Direct sales to E-commerce platforms	Sales to online distributors	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	<u>824,397</u>	<u>351,170</u>	<u>509,035</u>	<u>262,886</u>	<u>16,749</u>	<u>1,964,237</u>
Gross profit	<u>370,891</u>	<u>234,178</u>	<u>250,434</u>	<u>132,386</u>	<u>7,027</u>	<u>994,916</u>

	2022					Total RMB'000
	Direct sales to online customers RMB'000	Direct sales to offline customers RMB'000	Sales to offline distributors RMB'000	Direct sales to E-commerce platforms RMB'000	Sales to online distributors RMB'000	
Revenue	<u>695,265</u>	<u>314,466</u>	<u>477,525</u>	<u>227,071</u>	<u>15,618</u>	<u>1,729,945</u>
Gross profit	<u>305,495</u>	<u>212,193</u>	<u>236,975</u>	<u>116,920</u>	<u>6,669</u>	<u>878,252</u>

(ii) Reconciliation of reportable segment profit or loss

	2023 RMB'000	2022 RMB'000
Total reportable segment gross profit	994,916	878,252
Other net income	30,502	27,692
Selling and distribution expenses	(563,283)	(503,879)
Administrative expenses	(159,506)	(111,543)
Research and development expenses	(26,384)	(24,320)
Finance costs	(2,919)	(1,636)
Consolidated profit before taxation	<u>273,326</u>	<u>264,566</u>

(iii) Geographic information

The Group generated all of its revenue in Chinese Mainland and its non-current assets are all located in Chinese Mainland, and accordingly, no analysis of geographic information is presented.

3 Other net income

	2023 RMB'000	2022 RMB'000
Net fair value changes on financial assets measured at fair value through profit or loss	1,937	1,455
Gain on disposal of investments in a subsidiary	–	380
Interest income	3,390	1,950
Government grants (note (i))	27,243	24,553
Net gain/(loss) on disposal of property, plant and equipment	186	(60)
Foreign exchange loss	(1,668)	–
Other expenses	(586)	(586)
	<u>30,502</u>	<u>27,692</u>

- (i) Government grants were received or receivable from several local government authorities as a recognition of the Group's contribution towards the local economic development.

4 Profit before taxation

Profit before taxation is arrived at after charging:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
(a) Finance costs		
Interest on bank loans	–*	15
Interest on lease liabilities	<u>2,919</u>	<u>1,621</u>
	<u>2,919</u>	<u>1,636</u>

* This amount represents amount less than RMB500.

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
(b) Staff costs[#]		
Salaries, wages and other benefits	274,965	255,528
Contributions to defined contribution retirement plan	13,754	12,160
Equity-settled share-based payment expenses	<u>4,816</u>	<u>5,253</u>
	<u>293,535</u>	<u>272,941</u>

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
(c) Other items		
Amortisation of intangible assets	653	540
Depreciation charge [#]		
– owned property, plant and equipment	18,770	17,889
– right-of-use assets	21,394	18,413
Impairment loss of trade receivables	625	2,819
Provision for/(reversal of) impairment loss of other receivables	1,361	(779)
Auditors' remuneration		
– Audit services		
KPMG	2,150	–
Other auditors	622	2,675
– Other services ^{##}		
KPMG	5,050	250
Listing expenses ^{##}	37,323	–
Cost of inventories [#]	<u>887,341</u>	<u>771,235</u>

[#] Cost of inventories includes RMB101,778,000 (2022: RMB97,666,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above or note 4(b) for each of these types of expenses.

^{##} Other services include RMB4,378,000 (2022: nil) which is also included in the listing expense disclosed separately above.

5 Income tax in the consolidated statement of profit or loss and other comprehensive income

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2023 RMB'000	2022 RMB'000
Current tax – PRC Corporate Income Tax (“PRC CIT”)		
Provision for the year	60,307	78,411
(Over)/under-provision in respect of prior years	(52)	444
	<u>60,255</u>	<u>78,855</u>
Deferred tax		
Origination and reversal of temporary differences	1,483	(20,167)
	<u>61,738</u>	<u>58,688</u>

In accordance with relevant rules and regulations of CIT in Chinese Mainland, a subsidiary of the Group, Guanghe Yan Palace Biotechnology Development Co., Ltd., is subject to PRC CIT at a preferential tax rate of 15% for the years ended 31 December 2023 and 2022. All the other Chinese Mainland subsidiaries of the Group and the Company are subject to income tax at 25% for the years ended 31 December 2023 and 2022 under the PRC Corporate Income Tax Law which was enacted on 16 March 2007.

According to the relevant tax rules in Chinese Mainland, qualified research and development costs are allowed for bonus deduction for income tax purpose, as a result, an additional 100% of the qualified research and development costs could be deemed as deductible expenses for the years ended 31 December 2023 and 2022.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2023 RMB'000	2022 RMB'000
Profit before taxation	<u>273,326</u>	<u>264,566</u>
Notional tax on profit before taxation, calculated at the applicable rates in the jurisdictions concerned	68,332	66,142
Tax effect of non-deductible expenses	4,274	3,010
Tax effect of additional deduction for qualified research and development expenses	(4,584)	(4,750)
Utilisation of previously unrecognised tax losses	(159)	(130)
Tax effect of unused tax losses not recognised	79	61
Statutory tax concession	(6,152)	(6,089)
(Over)/under-provision in prior years	(52)	444
Actual tax expense	<u>61,738</u>	<u>58,688</u>

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB197,485,000 (2022: RMB188,207,000) and the weighted average of 427,178,000 ordinary shares (2022: 425,290,000 shares after adjusting for the share subdivision in 2023 as disclosed in note 9(b) (“Share Subdivision”)) in issue during the year. The profit attributable to unvested ordinary shares held for employee incentive scheme with employees and the number of such shares have been excluded from the calculation of basic earnings per share for the year ended 31 December 2023 and 2022.

(i) Profit attributable to ordinary equity shareholders of the Company

	2023 RMB'000	2022 RMB'000
Profit for the year attributable to ordinary equity shareholders of the Company	201,218	191,840
Allocation of profit for the year attributable to unvested shares held for employee incentive scheme	<u>(3,733)</u>	<u>(3,633)</u>
Profit for the year attributable to ordinary equity shareholders of the Company	<u><u>197,485</u></u>	<u><u>188,207</u></u>

(ii) Weighted average number of ordinary shares

	2023 '000	2022 '000
Ordinary shares in issue at 1 January	86,700	86,700
Effect of unvested shares held for employee incentive scheme	(8,075)	(1,642)
Effect of Share Subdivision (note 9(b))	346,800	340,232
Effect of shares issued by initial public offering (note 9(b))	<u>1,753</u>	<u>–</u>
Weighted average number of ordinary shares at 31 December	<u><u>427,178</u></u>	<u><u>425,290</u></u>

(b) Diluted earnings per share

For the year ended 31 December 2023, there are no dilutive potential ordinary shares, and therefore, the amounts of diluted earnings per share are the same as basic earnings per share for the year.

For the year ended 31 December 2022, the effects of unvested ordinary shares held for employee incentive scheme with employees were not included in the calculation of diluted earnings per share because their inclusion would be anti-dilutive. The Company did not have other potential ordinary shares and therefore the amounts of diluted earnings per share were the same as basic earnings per share for the year.

7 Trade and other receivables

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables, net of loss allowance		
– third parties	83,298	62,834
Deposits	13,735	9,282
Amounts due from related parties	1,800	1,900
VAT recoverable	19,603	13,956
Other receivables	1,861	1,487
	<u>120,297</u>	<u>89,459</u>

As at 31 December 2023, deposits of RMB10,660,000 (2022: RMB5,769,000) of the Group were expected to be recovered or recognised as expense after more than one year. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivable (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current (not past due)	83,298	62,643
Less than 3 months past due	–	191
	<u>83,298</u>	<u>62,834</u>

Trade debtors are due within 30 to 90 days from the date of billing.

8 Trade and other payables

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade payables	62,525	64,087
Receipts in advance	31,981	22,035
Salary and welfare payables	60,811	53,210
Amount due to non-controlling interests	–	7,200
Other payables and accruals	38,182	25,442
	<u>193,499</u>	<u>171,974</u>
Financial liabilities measured at amortised cost		
Other tax payables	12,834	18,222
Refund liabilities:		
– arising from right of return	159	478
– arising from sales rebates	53,615	48,999
	<u>260,107</u>	<u>239,673</u>

All trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	2023 RMB'000	2022 <i>RMB'000</i>
Within 3 months	61,183	63,301
Over 3 months but within 6 months	794	204
Over 6 months but within 9 months	106	13
Over 9 months but within 1 year	244	–
Over 1 year but within 2 years	198	569
	62,525	64,087

9 Capital and dividends

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2023 RMB'000	2022 <i>RMB'000</i>
Final dividend proposed after the end of the reporting period of RMB21.5 cents per ordinary share (2022: RMB184.5 cents per ordinary share (before Share Subdivision)/equivalent to RMB36.9 cents per ordinary share (after Share Subdivision))	100,083	160,000

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2023 RMB'000	2022 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB184.5 cents per share (before Share Subdivision)/equivalent to RMB36.9 cents per ordinary share (after Share Subdivision) (2022: RMB92.3 cents per share (before Share Subdivision)/equivalent to RMB18.5 cents per ordinary share (after Share Subdivision))	160,000	80,000

(b) *Share capital*

	2023		2022	
	No. of shares (<i>'000</i>)	RMB' <i>000</i>	No. of shares (<i>'000</i>)	RMB' <i>000</i>
Ordinary shares, issued and fully paid:				
At 1 January	86,700	86,700	86,700	86,700
Subdivision of ordinary shares (<i>note (i)</i>)	346,800	–	–	–
Shares issued by initial public offering (<i>note (ii)</i>)	32,000	6,400	–	–
At 31 December	<u>465,500</u>	<u>93,100</u>	<u>86,700</u>	<u>86,700</u>

Note:

- (i) As approved by the shareholders' general meeting of the Company on 25 May 2023, immediately upon the initial public offering of the Company, each of issued ordinary share of RMB1 will subdivide into five ordinary shares of RMB0.2 each. After the share subdivision, the number of the issued ordinary shares was 433,500,000.
- (ii) 32,000,000 ordinary shares of par value of RMB0.2 each were issued at a price of HK\$9.7 per ordinary share upon the listing of the shares of the Company on the Stock Exchange of Hong Kong Limited. The gross proceeds raised from the offering was HK\$310,400,000 (equivalent to approximately RMB283,029,000). Net proceeds from the offering were RMB269,241,000 (after offsetting costs directly attributable to the issuance of shares of approximately RMB13,788,000), of which RMB6,400,000 was credited to the Company's share capital account and the remaining RMB262,841,000 was credited to the Company's share premium account.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

National Economy Stabilized and Improved, with Sustained Recovery in Consumer Spending

The overall national economy in China rebounded favorably. China's GDP exceeded RMB126 trillion in 2023, increasing by 5.2% from 2022, which recorded a growth rate that ranked among the top of the global major economies. China promulgated a series of economic stimulus policies to boost consumption during 2023, including the Measures on Restoring and Expanding Consumption issued by the National Development and Reform Commission. The total retail sales of consumer goods in China reached RMB4,714.95 billion representing an increase of 7.2% from 2022. In addition, national per-capita disposable income in China increased by 6.1%. This reflects that social consumption has gradually returned to normal.

Rising Awareness of Self-health Management and a Booming Beauty and Wellness Product Market

According to Frost & Sullivan, China's beauty and wellness product market, in terms of retail value, increased from RMB630.3 billion in 2017 to RMB865.8 billion in 2022, at a CAGR of 6.6%, and is expected to reach RMB1,173.9 billion in 2027, at a CAGR of 6.3% from 2022 to 2027. The beauty and health industry has ushered in ample development opportunities.

Enduring Cultural Appeal for Bird's Nest and Sustained Demand for EBN Products

According to the *2022 Report on Values and Lifestyles of High Net Worth Individuals* (2022 年高淨值人群價值觀及生活方式研究報告) released by Hurun Report (胡潤百富), the penetration rate of EBN among high net worth individuals ranked second within the healthcare product category, second only to vitamins, and ahead of other Chinese tonic products. EBN is considered as a gift product that meets high-end social and healthcare needs. The steady increase of premium demand provides a solid foundation for the industry's sustainable growth. China's EBN market, in terms of retail value, is expected to grow from RMB43.0 billion in 2022 to RMB92.1 billion in 2027, at a CAGR of 16.5%. Building on the high-end positioning and gifting consumption scenarios of EBN products, these products are answering to the public's demand for self-care and hospitality, and the demand and supply of EBN products in the relevant scenarios have become increasingly diversified, ushering in a broad prospect for such products from pure EBN products to "EBN+" products and "+EBN" products.

1. Brand Management

According to the Company's brand health tracking report conducted by Ipsos (益普索) in 2023, our brand awareness and top-of-mind awareness rank leading in the EBN industry. On the China Brand Power Index (C-BPI) EBN brand ranking, the Company has been ranked the first in the industry for four consecutive years, leading the industry in terms of brand power. Meanwhile, the Company has once again become the only brand within the EBN industry selected in the 2023 China Brand Value Evaluation Information Release (中國品牌價值評價信息發佈).

(i) Dual Brand Ambassadors Supporting Brand Strategy

After partnering with Ms. Zhao Liying (趙麗穎), actress with national influence, as our brand ambassador, in October 2023, we announced the young actress and dancer Ms. Jin Chen (金晨) as a new ambassador of the Company, which presents consumers with a healthier, more energetic and diversified lifestyle, to accurately reach out to a wider young consumer group through a communication style that accords with their youthfulness and fashion trend. This strategy enables us to break through the youth marketing boundaries and reach a wider consumer group.

(ii) Steady Progress of Multi-brand Strategy

We uphold the notion of sustainable development and firmly implement the multi-brand strategy by promoting the “master brand + sub-brand” in a clear manner, steadily implementing layouts and expanding business, and striving to create more value for customers. During the year of 2023, we launched the EBN porridge series under the sub-brand *Xiao Yan Nong* (小燕濃), making a strong entrance into the ready-to-serve tonic porridge market. As one of the sub-brands of the Company, *Xiao Yan Nong* has quickly emerged in the market with its *Real Bird's Nest* (真燕窩) and *Real Nourishment* (真滋潤) features. In addition, we have actively expanded the “+EBN” product categories. Positioned as EBN skincare expert, *Yan Palace — Yan Bao Shi* (燕寶詩) launched a series of EBN skincare products focused on “repair and anti-aging” (修護抗老) to better meet consumers' needs for beauty and wellness.

(iii) Spread Traditional Culture and Boost Festival Sales

With the goal of promoting cultural confidence and self-strengthening, and stimulating innovation and creativity, at the beginning of 2023, we partnered with Mr. Guo Xiao (郭霄), a young actor from the National Peking Opera Company, to pay a tribute to the quintessence of Chinese culture with the making of a microfilm. Through broadcasting on CCTV, we spread the culture of Peking Opera, enriched cultural sentiments, and allowed more audiences to witness the unique charm of the quintessence of Peking Opera. By integrating the inheritance of traditional culture into the development process of the enterprise, we expressed our tribute, inheritance, and guardianship of Chinese traditional culture. We leveraged the cultural intellectual property of Peking Opera to produce high-quality content, interact with users, and achieve an efficient outreach.

2. Channel Management

In 2023, as the notion of health and wellness became more popular, the EBN industry ushered in new development opportunities. We have achieved satisfactory operating results by relying on our strategy of synergistic development across all channels.

(i) E-commerce Channel

Our online sales network consists of self-operated online stores, distributor-operated online stores and e-commerce platforms. As of December 31, 2023, we had 27 self-operated online stores and 18 distributor-operated online stores on mainstream e-commerce or social media platforms such as JD.com, Tmall and Douyin. As of December 31, 2023, we had 15 e-commerce platforms as our customers, including JD.com, Vipshop and Tmall Supermarket, among others. In 2023, our total revenue from e-commerce business was RMB1,104.0 million, accounting for 56.2% of the total revenue of our Group and representing an increase of 17.7% from 2022.

The e-commerce business has successfully attracted more consumers by optimizing its product portfolio and expanding new channels for online sales. In terms of marketing strategy, we have adopted diversified promotion measures, including long-term and short-term celebrity endorsements, social media promotions, cooperation with influencers, and online/offline activities. Through reaching out to different groups of people, we have allowed more users with different backgrounds and attributes to experience, try and choose our products. While expanding our customer base, we have also leveraged the influence of celebrities and influencers to gain incremental growth from more mainstream distribution channels. During the traditional e-commerce promotion periods, such as the “618” shopping festival, Singles’ Day Shopping Carnival (雙十一購物狂歡節), we maintained our industry leading position. During the non-promotional periods, we formulated different product strategies and innovative marketing campaigns to improve sales performance during the off-season, enhancing customer stickiness. Live streaming e-commerce is a new business format that integrates e-commerce and live streaming in the context of digitalization. Nowadays, new forms of comprehensive marketing such as content seeding, short videos/live streaming for product promotion, have become the new “standard configuration” of digital marketing, reshaping the user consumption chain. With a professional team, distinct product positioning, and powerful differentiation content output strategy, we create personalized high-quality content through methods like “live streaming + celebrities”, providing consumers with broader consumption scenarios and richer, more direct, and real-time shopping experiences, accelerating the enhancement of brand awareness and influence. Due to outstanding operational performance, we have been awarded three major prizes: the 2023 Tmall Health Annual Industry Benchmark Brand (2023天貓健康年度行業標桿品牌), the Annual Digital Operation Vanguard Award (年度數字化經營先鋒獎), and the Annual Live Streaming Achievement Award (年度直播成就獎).

Private domain channels serve as a crucial bridge for us to establish closer and more personalized connections with our customers. We invested significant efforts and resources in 2023 to optimize and expand our private domain channels. Through in-depth mining and analysis of our membership data, we were able to understand our customers' purchase preferences and consumption habits, as allowing us to recommend products that better meet their needs. Such personalized marketing approach not only improves conversion rates but also enhances customers' trust in the brand. In the future, we will continue to deepen the development of private domain channels, continuously optimizing customer experience and service quality to provide more attentive and tailored exclusive services for our customers. In the meantime, we will also actively explore new private domain marketing strategies and approaches to continuously enhance the influence and market competitiveness of our brand.

(ii) Offline Channels

In 2023, the total revenue from the offline business was RMB860.2 million, accounting for 43.8% of the Group's total revenue and representing an increase of 8.6% compared with 2022. As of December 31, 2023, we had a nationwide offline sales network consisting of 96 self-operated stores and 229 offline distributors covering 647 distributor-operated stores in China. The following table sets forth the number of our offline stores by type as of the date indicated.

	Self-operated stores		2023
	2021	2022	
Offline stores			
Self-operated stores	89	89	96
Distributor-operated stores	544	615	647
Total	633	704	743

In 2023, we continued to strengthen our presence in high tier cities, establish strategic flagship stores in key cities and enhance coverage in core business districts and shopping centers to achieve upgrades of channels. For the vertical channels, we explored new airport stores models and have opened terminal stores at Beijing Daxing Airport and Xiamen Gaoqi Airport. According to *Bird's Nest Industry White Paper 2021-2022* (2021-2022 年度燕窩行業白皮書) released by the Edible Bird's Nest Market Committee of China Agricultural Wholesale Markets Association (CAWA-EBMC) (全國城市農貿中心聯合會燕窩市場專業委員會), branded offline stores are the mainstream consumption channel for consumers to purchase EBN products. Therefore, offline stores have advantages in consumer education and customer acquisition. Meanwhile, with consumption penetrates into lower-tier cities, consumers will rely more on offline channels. The Company will continue to develop county-level markets through our existing distributorship system, further refining our terminal presence.

We continued to strengthen our membership service system by upgrading our Golden Yan Club (金燕薈) membership program and improving the function of shopping guide assistant. Golden Yan Club has featured a tiered membership system, and various online interactive activities were organized under the membership program for different tiers of customers to promote the growth of high-tier members. In 2023, we held hundreds of interactive activities for all types of customers nationwide, and invited VIP customers to visit our production bases, which effectively drove customer stickiness. In terms of specific customer segmentation, we have established four urban women's golf clubs in Beijing, Shenzhen, Guangzhou and Xiamen, to deepen our interaction with key customers. In addition, to cope with the change of consumption habits, we focused on enhancing the exposure of *One Nest* (碗燕) on online channels through live-streaming promotion on Douyin and promoting the online platforms exposure on platforms such as Pupu, Meituan, Dianping, Ele.me, JD Daojia, SF Express and Ali Local Life, among which promotion on Douyin Local Life has achieved sound results in the Beijing market.

3. Products and R&D

Consumer experience is our top priority. We leverage modern technology to continually drive product innovation that elevates consumer experience. Our product portfolio primarily consists of three product categories, i.e., pure EBN products, “EBN+” products and “+EBN” products, to meet the differentiated consumer needs for experience in different life scenarios and, in the meantime, to foster a valued sense of self-care and hospitality, catering to consumers' aspiration for quality lifestyle and social engagement.

(i) Pure EBN Products

In 2023, the annual revenue generated from the pure EBN product series was RMB1,794.2 million, representing an increase of 9.53% compared with 2022 and accounting for 91.34% of our total revenue. In 2023, we conducted a comprehensive upgrade of our 11-year-old *One Nest* product series, accentuating its appeal from four dimensions: superior raw materials, superior nutrition, superior richness, and superior experience, so as to further enhance the consumption for personal use of *One Nest* and customer stickiness. Such upgrades include:

- Strengthening the selection of core production areas for EBN raw materials and strictly controlling the quality process of production to highlight the value of *One Nest*;
- Using an oxygen-free nitrogen filling technology to preserve freshness, providing *One Nest* with a taste as if it were freshly stewed;
- Reducing the void ratio of *One Nest* products, increasing richness by 17%; and
- Upgrading to an easy-tear sealing membrane for smoother opening experience.

In response to China’s “dual carbon” goals, we organized the New Generation Freshly Stewed Bird’s Nest Launch and Annual Environmental Protection Achievement Reporting Conference (新一代鮮燉燕窩發佈會暨年度環保成果報告會) in Beijing in October 2023, announcing the carbon emission measurement data and launching the new environmental friendly product of the year – *Yan Palace New Generation Freshly Stewed Bird’s Nest* (燕之屋新一代鮮燉燕窩), and officially launching the Empty Bottle Environmental Protection Program (空瓶環保計劃). Through technological innovation, we broke through the industry barriers of freshly stewed EBN products, and took practical actions towards energy conservation and emission reduction, delivering outstanding annual results by reducing approximately 2,576.90 tons of carbon dioxide equivalent and contributing to the “dual carbon” targets.

Our other bottle-canned bird’s nest products have continued to be well received and loved by the consumers. Revolving around the theme of “*Love Your Nests*” (“窩愛妳”), we launched limited edition products for Valentine’s Day, Mother’s Day and Chinese Valentine’s Day, and continuously enriched online festival-specific products to boost e-commerce sales during non-promotional periods.

In 2023, we launched the *Silk Road Yan Dance Dragon Tongue Dried EBN* (絲路燕舞龍舌盞乾燕窩), positioned as the top-notch quality tier of dried EBN products. In the meantime, we launched pure EBN for instant stewing (既燉純淨燕窩) to cater for the convenience needs of home cooking.

(ii) **EBN+ and +EBN Products**

Through the innovative combination of bird’s nest and other ingredients, the consumption scenarios and flavors of our EBN+ and +EBN products have been further expanded.

Xiao Yan Nong EBN Porridge Products

Based on the ancient concept of traditional dietary therapy and wellness, which is combined with modern consumer trends, we integrated millennia-old nourishing bird’s nest with nutrient-rich grains and functional dietary ingredients to develop a variety of delicious, low-sugar, nutritionally balanced bird’s nest porridge products with certain nourishing effects. This provides consumers with a convenient and nutritious breakfast option, helping them to achieve healthy diet and efficient wellness and enabling a lifestyle of light nourishment anytime, anywhere.

Xiao Yan Nong EBN porridge has been actively exploring various channels. For example, it cooperated with famous live broadcasting celebrities. Advertisements on CCTV’s music channel, local TV channels and elevators were placed to further expand the influence of *Xiao Yan Nong* EBN porridge. In 2023, the cumulative sales of *Xiao Yan Nong* EBN porridge has exceeded 1 million serves across all platforms, contributing to a revenue of RMB22.9 million, which has become a new growth point for the Company.

Yan Palace – Yan Bao Shi Skincare Products

In March 2023, we commercially launched our skincare product series featuring small molecule bird's nest peptide under the sub-brand of “*Yan Palace — Yan Bao Shi*” (燕之屋 – 燕寶詩). With our proprietary targeted enzymatic hydrolysis technology, we convert macromolecular protein of EBN into small molecules EBN peptide with high functional activity, which has the functions of repairing skin damage, anti-aging, whitening and anti-oxidation, among others. We are the first mover in the industry that launched skincare products featuring bird's nest peptide as core function factor. Our skincare product series included facial masks, essence mist, facial cleanser, hand cream and cleanser wipe. In terms of channel layout, *Yan Bao Shi* has strengthened traffic operations on official website and private domains, while has also actively explored new channels. In 2023, *Yan Bao Shi* skincare products achieved sales revenue of RMB17.3 million.

With the rich product matrix, in 2023, the total revenue generated from EBN+ and +EBN products was RMB142.0 million, accounting for 7.2% of our total revenue and representing an increase of 94.2% compared with 2022.

4. Supply Chain Management

Our philosophy and primary focus are bringing people beauty and wellness, quality and heritage of EBN products. We implement stringent supplier selection process, and source natural, high-quality and cruelty-free EBN from Southeast Asia. In 2023, the volume of CAIQ-certified EBN imports was 557.1 tonnes, increasing by 23.4% from 2022. Traceable bird's nest continued to gain share from non-traceable bird's nest, driving industry consolidation. Our Company continued to rank No. 1 by the volume of CAIQ-certified imports in the EBN product market in China in 2023.

In terms of manufacturing, in 2023, our Xiamen factory initiated refined manufacturing improvements and improved production efficiency by optimizing the *One Nest* process, switching to a new process for fresh stewing, and introducing automatic soaking and draining machines, sieving machines, and visual inspection equipment for packaging. In the meantime, Xiamen factory carried out a small-scale automation of the production line in the constrained production sites, which has achieved preliminary results and accumulated experience for the efficiency improvement of new factories in the future. In 2023, the Shanghai factory's operation gradually returned to normal and released production capacity, resulting in a considerable increase in production efficiency and effective reduction of production costs, representing the realization of the strategic and economic value of our Shanghai factory.

In order to expand our production capacity, we leased an independent industrial park located in Tongan District, Xiamen to build a new production base. The new production base will adopt automated production equipment and introduce information systems such as Manufacturing Execution System (MES), Warehouse Management System (WMS) and Warehouse Execution System (WES) to create an agile management system. The completion of the new production base is expected to improve production efficiency and lay the manufacturing foundation for our Company's next phase of rapid development.

5. Human Resource Management

A proactive and uplifting corporate culture is the cornerstone of sustainable and healthy development of enterprises. We have always adhered to the corporate values of “customer-centric, integrity and beneficence, innovation and dedication, steady progress” (以客為尊, 守正利他, 創新實幹, 行穩致遠的企業價值觀) in building up our team. We have a clear organizational structure and emphasize the construction of talent echelons. In 2023, we were awarded the *2023 China Employer of the Year Award* (2023 中國年度優選僱主獎) by Zhaopin Ltd. (智聯招聘) in conjunction with Peking University and other relevant organizations, which was a result of our practice of the notion of valuing, respecting, motivating and fulfilling talents (重視人才, 尊重人才, 激發人才, 成就人才). As of December 31, 2023, the Company had a total of 1,917 employees. For the year ended December 31, 2023, employee costs, including directors' and supervisors' remuneration and share-based compensations, amounted to approximately RMB293.5 million.

In order to improve the Company's incentive mechanism, retain key employees and promote the sustainable development of the Company's business, the Board proposed the H Share Incentive Scheme to the Shareholders' general meeting for consideration to incentivize the management personnel and core technical employees who play important roles in the Company's operating results and future development. The H Share Incentive Scheme is still subject to approval by Shareholders. For the details of the H Share Incentive Scheme and related information, please refer to the announcement of the Company dated January 12, 2024 and the circular of the Company dated March 7, 2024.

OUTLOOK

In January 2024, we officially announced Ms. Gong Li (鞏俐) as our global brand ambassador, unveiling a new brand image to unleash our innovative spirit and explosive growth potential. We will comprehensively enhance our brand momentum and build brand barriers to solidify our position as the leading EBN expert and brand. Through the brand matrix strategy of “focusing on master brand and expanding sub-brands”, we will continue to elevate the influence of the master brand *Yan Palace*, and gradually build up the brand awareness of our sub-brands, *Yan Bao Shi* and *Xiao Yan Nong*. With high-net-worth consumers as our base and mass consumption as our growth driver, we will continue to launch new products to satisfy the pursuit of beauty and wellness of different types of consumers.

However, we should also note that the economic recovery may not be as strong as expected, and the public’s consumption psychology and patterns have undergone some changes after the epidemic, and the uncertainty of the external environment has brought continuous pressure and challenges. We will continue to expand our business based on the principle of adhering to long-termism and sustainability, continue to build our brands through fostering in-depth customer relationships, further expand and enhance our omni-channel sales network, broaden our product portfolio and strengthen our R&D capabilities, enhance deep collaboration in the supply chain, move into the new production base to upgrade and expand our production capacity, and strengthen the digitization of our business processes.

With the vision of “leading the global bird’s nest industry and building a century-old national brand” (引領全球燕窩行業, 打造百年民族品牌), we adhere to the corporate values of “customer-centric, integrity and beneficence, innovation and dedication, steady progress” and stay committed to the strategy of “Healthy China”, fulfilling our corporate social responsibility and commitment to promoting the compliant, orderly and sustainable development of the industry, and fully leveraging the Company’s industry leading position in scientific research, to jointly promote the high-quality development of the beauty and wellness industry and usher in a new chapter for the global bird’s nest industry.

FINANCIAL REVIEW

The following discussions are based on the financial information and notes set out in other sections of this announcement and should be read in conjunction with them.

Revenue

Our revenue was mainly derived from sales and distribution of EBN products.

Our revenue increased by 13.5% from RMB1,729.9 million for the year ended December 31, 2022 to RMB1,964.2 million for the year ended December 31, 2023. The following table set forth a breakdown of our revenues by product categories for the years ended December 31, 2022 and 2023.

	Year ended December 31,			
	2023		2022	
	RMB '000	%	RMB '000	%
Pure EBN products	1,794,214	91.3	1,638,127	94.7
EBN+ and +EBN products	141,986	7.2	73,103	4.2
Others ⁽¹⁾	28,037	1.5	18,715	1.1
Total	1,964,237	100.0	1,729,945	100.0

Note:

(1) Include non-EBN products such as moon cakes, snacks and rice dumplings etc. .

- *Pure EBN products.* Revenue generated from pure EBN products mainly represents the revenue generated from sales of pure EBN products primarily consisting of *One Nest* (碗燕), Freshly Stewed Bird's Nest (鲜嫩燕窝), other bottle-canned bird's nest and dried EBN. Our revenue generated from the sales of pure EBN products increased by 9.5% from RMB1,638.1 million for the year ended December 31, 2022 to RMB1,794.2 million for the year ended December 31, 2023, primarily due to increase in sales of Freshly Stewed Bird's Nest and other bottle-canned bird's nest.
- *EBN+ and +EBN products.* Revenue generated from EBN+ and +EBN products mainly represents the revenue generated from sales of EBN+ and +EBN products. Our revenue generated from the sales of EBN+ and +EBN products increased by 94.2% from RMB73.1 million for the year ended December 31, 2022 to RMB142.0 million for the year ended December 31, 2023, primarily due to (1) significant increase in the sales of EBN porridge; and (2) newly launched skincare products under our sub-brand of *Yan Palace – Yan Bao Shi*.
- *Others.* Our revenue generated from the sales of other products increased by 49.8% from RMB18.7 million for the year ended December 31, 2022 to RMB28.0 million for the year ended December 31, 2023, primarily due to expansion of our membership programs that led to the increase in sales of non-EBN products to members.

Cost of sales

Our cost of sales primarily consisted of cost of raw materials, employee benefits expenses, production costs and courier fees.

Our cost of sales increased by 13.8% from RMB851.7 million for the year ended December 31, 2022 to RMB969.3 million for the year ended December 31, 2023, in line with the revenue growth in 2023.

Gross profit and gross profit margin

Our gross profit increased by 13.3% from RMB878.3 million for the year ended December 31, 2022 to RMB994.9 million for the year ended December 31, 2023. The increase in our gross profit was in line with the growth in our overall revenue. Our gross profit margin for the year ended December 31, 2023 remained stable at 50.7%, as compared to 50.8% for the year ended December 31, 2022.

Selling and distribution expenses

Our selling and distribution expenses primarily consisted of (i) advertising and promotion fees and (ii) employee benefits expenses. Our selling and distribution expenses increased by 11.8% from RMB503.9 million for the year ended December 31, 2022 to RMB563.3 million for the year ended December 31, 2023, which was primarily attributable to (1) the increase in advertising and promotional fees along with the growth of revenue and (2) the increase in employee benefits expenses due to the expansion of our Company's operating scale and the increase in the number of employees.

Administrative expenses

Our administrative expenses primarily consisted of (i) employee benefits expenses and (ii) consulting service fee which primarily consisted of expenses in connection with strategic and management consulting services and the listing expenses. Our administrative expenses increased by 43.0% from RMB111.5 million for the year ended December 31, 2022 to RMB159.5 million for the year ended December 31, 2023, which was primarily attributable to increased expenses relating to the Global Offering and listing of our Company on the Stock Exchange.

Research and development expenses

Our research and development expenses increased by 8.5% from RMB24.3 million for the year ended December 31, 2022 to RMB26.4 million for the year ended December 31, 2023, which was primarily attributable to (1) increased expenses for research and development materials and process development costs for R&D projects; and (2) increased expenses for market research and academic exchange.

Other net income

Our other net income primarily consisted of (i) government grants and (ii) interest income. Our other net income increased by 10.1% from RMB27.7 million for the year ended December 31, 2022 to RMB30.5 million for the year ended December 31, 2023, which was primarily attributable to increase in government grants.

Finance cost

Our finance costs primarily consisted of interest expenses on our lease liabilities. Our finance costs increased by 78.4% from RMB1.6 million for the year ended December 31, 2022 to RMB2.9 million for the year ended December 31, 2023, which was primarily attributable to increase in interest expenses for lease liabilities.

Income tax

Our income tax increased by 5.2% from RMB58.7 million for the year ended December 31, 2022 to RMB61.7 million for the year ended December 31, 2023, which was primarily attributable to profit increase.

Profit for the year

As a result of the foregoing, our profit for the year increased by 2.8% from a net profit of RMB205.9 million for the year ended December 31, 2022 to a net profit of RMB211.6 million for the year ended December 31, 2023.

Non-IFRS measures

In order to supplement our consolidated financial statements presented in accordance with the IFRS Accounting Standards, we use adjusted net profit (non-IFRS measure) as an additional financial measure, which is not required by, or not presented in accordance with IFRS Accounting Standards. Our adjusted net profit (non-IFRS measure) represents our profit and total comprehensive income for the year, adjusted to add back equity-settled share-based payment expenses and listing expenses that we recognized in our consolidated statement of profit or loss and other comprehensive income during the year less related income tax. Equity-settled share-based payment expenses are adjusted for as they are non-cash in nature and were not expected to result in future cash payments. We believe that the non-IFRS measure facilitates comparisons of operating performance from year to year and company to company by eliminating potential impacts of certain items. However, adjusted net profit (non-IFRS measure) presented by us may not be comparable to the similar financial measure presented by other companies. There are limitations to the non-IFRS measure used as an analytical tool, and you should not consider it in isolation or regard it as a substitute for our results of operation or financial position analysis that is in accordance with IFRS Accounting Standards.

The following table reconciles our adjusted net profit for the year presented to the most directly comparable financial measure calculated and presented under IFRS Accounting Standards.

	Year ended December 31,	
	2023	2022
	<i>(RMB in thousands)</i>	
Profit and total comprehensive income for the year	211,588	205,878
<i>Add:</i>		
Equity-settled share-based payment expenses	4,816	5,253
Listing expenses	37,323	–
<i>Less:</i>		
Income tax in relation to listing expenses	9,331	–
Adjusted net profit (non-IFRS measure)	<u>244,396</u>	<u>211,131</u>

Liquidity, financial resources and capital structure

The primary uses of cash are to fund the daily operations of the business of the Group. For the years ended December 31, 2022 and 2023, we financed our capital expenditures and working capital requirements primarily through cash generated from our operating activities. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, the gross proceeds from the Global Offering, bank loans and other borrowings, and other funds raised from the capital markets from time to time. As of December 31, 2023, the Group had not used any financial instruments for hedging purposes.

We have continued to maintain a healthy and sound financial position and have followed a set of funding and treasury policies to manage our capital resources and mitigate potential risks involved. Our current assets increased from approximately RMB773.3 million as of December 31, 2022 to approximately RMB1,154.5 million as of December 31, 2023, primarily due to (1) proceeds from the Global Offering; (2) increase of inventory balance at the end of 2023 as compared to the end of 2022; (3) increase of prepayment of advertising and promotion expenses; (4) increase of accounts receivable from e-commerce platforms along with the revenue growth.

Cash flows

As of December 31, 2023, our cash and cash equivalents primarily consisted of cash at banks and were denominated in RMB and HKD. Our total cash and cash equivalents increased by 53.1% from RMB350.8 million as of December 31, 2022 to RMB537.1 million as of December 31, 2023. The increase was primarily attributed to the net proceeds from the Global Offering.

Foreign exchange risk management

Our functional currency is RMB. Our business is principally conducted in RMB, and substantially all of our assets are denominated in RMB. Foreign exchange risk arises when commercial transactions or recognized assets and liabilities are denominated in a currency that is not our functional currency. We are subject to foreign exchange risk arising from commercial transactions and recognized assets and liabilities which are denominated in non-RMB.

We recognized net foreign exchange losses of RMB1.7 million in the year ended December 31, 2023.

We have not implemented any hedging arrangements. We manage our foreign exchange risk by closely monitoring the movement of the foreign currency rates. We will mitigate such a risk by constantly reviewing the economic situation and foreign exchange risk, and applying hedging measures when necessary.

Capital expenditure

For the year ended December 31, 2023, our total capital expenditure was approximately RMB24.4 million, compared to approximately RMB22.5 million for the year ended December 31, 2022. Our capital expenditure primarily consisted of payments for purchase of property, plant and equipment and purchase of intangible assets. We funded these expenditures with cash generated from our operations and financing activities.

Capital commitments

As of December 31, 2022 and 2023, we had capital commitments of RMB3.3 million and RMB33.9 million, respectively, primarily in connection with (1) the remaining amount of payments expected to be made in the future for the purchase of long-term assets; and (2) the amount of payments for short-term leases within the next year.

Contingent liabilities

As of December 31, 2023, we did not have any material contingent liabilities, guarantee or any litigation or claim of material importance, pending or threatened against any member of our Group.

Future plans for material investments and capital assets

Save as disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus and in this announcement, as of December 31, 2023, we did not have detailed future plans for material investments or capital assets.

Material acquisitions and disposals and significant investments

Save as disclosed in the Prospectus, we did not have any material acquisitions and disposals and significant investments during the year ended December 31, 2023.

Pledge of assets

As of December 31, 2023, we did not pledge any of our assets.

Net current assets

As of December 31, 2022 and 2023, our net current assets amounted to RMB280.2 million and RMB594.4 million, respectively. The increase in our net current assets was primarily attributable to an increase in cash and cash equivalents balance as a result of the receipt of the Global Offering proceeds.

Borrowings and Indebtedness

Our indebtedness consisted primarily of lease liabilities. The following table sets forth a breakdown of our indebtedness as of the dates indicated.

	As of December 31,	
	2023	2022
	<i>(RMB in thousands)</i>	
Current indebtedness		
Lease liabilities	<u>26,391</u>	<u>15,657</u>
Non-current indebtedness		
Lease liabilities	<u>111,287</u>	<u>11,264</u>
Total	<u><u>137,678</u></u>	<u><u>26,921</u></u>

As of December 31, 2023, we had no outstanding balance of borrowings or unutilized banking facilities.

Key financial ratios

The following table sets forth our key financial ratios as of the date and/or for the years indicated.

	As of/for the year ended	
	December 31,	
	2023	2022
Profitability ratios		
Gross profit margin ⁽¹⁾	50.7%	50.8%
Net profit margin ⁽²⁾	10.8%	11.9%
Return on equity ⁽³⁾	33.3%	49.9%
Liquidity ratios		
Current ratio ⁽⁴⁾	2.1x	1.6x
Gearing ratio ⁽⁵⁾	17.3%	5.7%

Notes:

- (1) The calculation of gross profit margin is based on gross profit for the year divided by revenue for the respective year and multiplied by 100%.
- (2) The calculation of net profit margin is based on profit for the year divided by revenue for the respective year and multiplied by 100%.
- (3) The calculation of return on equity is based on profit for the year divided by average total equity as of the beginning and end of the year and multiplied by 100%.
- (4) The calculation of current ratio is based on current assets divided by current liabilities as of year end.
- (5) The calculation of gearing ratio is based on total debt (including interest-bearing borrowings and lease liabilities) divided by total equity and multiplied by 100%.

OTHER INFORMATION

Use of Proceeds

The H shares of the Company were listed on the main board of the Stock Exchange on December 12, 2023. The net proceeds received from the Global Offering (after deducting the underwriting commissions and other fees and expenses in connection with the Global Offering) was approximately HK\$256.46 million.

The net proceeds from the Global Offering (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in that same manner, proportion and the expected timeframe as set out in the Prospectus under the section headed “Future Plans and Use of Proceeds”.

The table below sets out the planned and actual applications of the net proceeds up to December 31, 2023.

	Net proceeds from the Global Offering	Utilization up to December 31, 2023	Unutilized proceeds as of December 31, 2023
	<i>(HKD in millions)</i>		
Research and development activities to			
expand our product portfolio and enrich our product features	25.6	–	25.6
Expand and consolidate our sales network	64.1	–	64.1
Strengthen our brand building and marketing promotion efforts	38.5	–	38.5
Strengthen our supply chain management capabilities	89.8	–	89.8
Strengthen our digital infrastructure	12.8	–	12.8
Working capital and other general corporate purposes	25.6	–	25.6
	<u>256.46</u>	<u>–</u>	<u>256.46</u>
Total	<u>256.46</u>	<u>–</u>	<u>256.46</u>

To the extent that the net proceeds have not been immediately utilized, the balance has been deposited into banks. The Board currently do not expect to change the intended use of net proceeds as previously disclosed in the Prospectus, and expects full utilization of the net proceeds raised from the Global Offering by December 31, 2028, subject to changes in light of the Company's evolving business needs and changing market conditions.

Employees, Training and Remuneration Policies

As of December 31, 2023, we had 1,917 employees. The labour costs including Directors' and Supervisors' emoluments and share-based payment expenses were approximately RMB293.5 million in the year ended December 31, 2023.

Our employees' compensation includes basic salary, performance-based cash bonuses and other incentives. We determine our employees' compensation based on each employee's performance, qualifications, position and seniority. In order to improve the Company's incentive mechanism, retain key employees and promote the sustainable development of the Company's business, the Board proposed the H Share Incentive Scheme to the Shareholders' general meeting for consideration to incentivize the management personnel and core technical employees who play important roles in the Company's operating results and future development. The H Share Incentive Scheme is still subject to approval by Shareholders. For the details of the H Share Incentive Scheme and related information, please refer to the announcement of the Company dated January 12, 2024 and the circular of the Company dated March 7, 2024.

We recognize the importance of keeping the Directors updated with the latest information of duties and obligations of a director of a company whose shares are listed on the Stock Exchange and the general regulatory and environmental requirements for such listed company. To meet this goal, we are committed to the continuing education and development of the Directors.

The Directors, Supervisors and senior management receive remuneration from the Company in the form of fees, salaries, contributions to pension schemes, discretionary bonuses, allowances and other benefits in kind. The Board has established the Remuneration and Appraisal Committee to review and recommend the remuneration and compensation packages of the Directors, Supervisors and senior management of the Company, and the Board, with the advice from the Remuneration and Appraisal Committee, will review and determine the remuneration and compensation packages taking into account salaries paid by comparable companies, time commitment and responsibilities of the Directors, Supervisors and senior management and performance of the Group.

As required under the labor laws of PRC, we enter into individual employment contracts with our employees covering matters such as wages, bonuses, employee benefits, workplace safety, confidentiality obligations, non-competition and grounds for termination. In compliance with PRC regulations, we participate in various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans.

We believe that we have maintained a good working relationship with our employees and we had not experienced any material labor disputes or any difficulty in recruiting staff for our operations during the year ended December 31, 2023.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor its subsidiary had purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to the date of this announcement.

Sufficiency of Public Float

According to the information that is publicly available to the Company and within the knowledge of the Board, the Company has maintained to comply with the minimum public float percentage requirement under Rule 8.08(1) of the Listing Rules at any time during the period from the Listing Date to the date of this announcement.

Compliance with Corporate Governance Code

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code and the Company has adopted the CG Code as its own code of corporate governance.

From the Listing Date to the date of this announcement, the Company has complied with all the applicable code provisions as set out in the CG Code.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct regarding the transactions of securities of the Company by its directors, supervisors and the relevant employees who would likely possess inside information of the Company. Specific enquiry has been made to all directors and supervisors of the Company and all of them have confirmed that they have complied with the Model Code during the period from the Listing Date to December 31, 2023.

Review of Annual Results

The Audit Committee of the Company (the “Audit Committee”) has been established in compliance with Rules 3.21 and 3.22 of the Listing Rules with written terms of reference in compliance with the CG Code. The primary responsibilities of the Audit Committee are to review and monitor the financial reporting, risk management and internal control systems of the Company and to assist the Board to fulfill its responsibilities over the audit.

As of the date of this announcement, the Audit Committee comprises three independent non-executive Directors, namely, Mr. CHEN Aihua, Mr. XIAO Wei and Mr. LAM Yiu Por, and Mr. CHEN Aihua serves as the chairman of the Audit Committee.

The Audit Committee has reviewed and confirmed the accounting principles and policies adopted by the Group and discussed the auditing, internal control and financial reporting matters of the Group. The annual results of the Group for the year ended 31 December 2023 have also been reviewed by the Audit Committee.

Scope of Work of the Auditor

The financial 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, 2023 as set out in this annual results announcement have been agreed by the Group’s auditor, KPMG, to the amounts set out in the Group’s audited consolidated financial statements for the year ended December 31, 2023 as required under Rule 13.49(2) of the Listing Rules. The work performed by KPMG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no opinion or assurance conclusion has been expressed by KPMG on this annual results announcement.

Events after the Reporting Period

After the end of the Reporting Period, the Directors proposed a final dividend. For details, please refer to “Other Information – Final Dividend” in this announcement and note 9(a) to the financial statements.

As of the date of this announcement, there has been no significant event since the end of the Reporting Period that is required to be disclosed by the Company.

AGM

It is proposed that the AGM will be held on May 21, 2024. A notice convening the AGM will be published on the HKEXnews website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.yanzhiwu.com), and will be despatched to the shareholders of the Company in accordance with the requirement of the Listing Rules in due course.

Final Dividend

The Board proposes the profit distribution plan for the year ended December 31, 2023 as follows: a cash dividend of RMB2.15 (inclusive of tax) for every 10 Shares (representing an aggregate amount of RMB100,082,500 (inclusive of tax) based on the total issued share capital of the Company as of December 31, 2023). In the event of change in the total issued share capital of the Company before the record date for profit distribution, dividends will be distributed according to the original dividend amount per Share and the total distribution amount will be adjusted accordingly. The profit distribution for 2023 is subject to, amongst others, approval by the Shareholders at the forthcoming AGM. Subject to the approval of the Shareholders at the AGM, the final dividend is expected to be paid to the eligible Shareholders by no later than June 17, 2024.

A circular containing further details as to, amongst others, the applicable foreign exchange rate, tax and payment arrangement for the proposed cash dividend, will be despatched to the Shareholders in due course.

Closure of Register of Members

In relation to the AGM

For determining the entitlement of Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from May 16, 2024 to May 21, 2024, both days inclusive, during which period no transfer of Shares will be registered.

In order to be eligible to attend and vote at the AGM, all H Share transfer documents accompanied by the corresponding share certificates must be lodged with the Company's branch H Share Registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on May 14, 2024. Unlisted Share Shareholders should contact the Board Secretary for details concerning registration of transfers of Unlisted Shares. The contact details of the Board Secretary are: Caizihui, No. 188, Qianpu Road, Siming District, Xiamen City, Fujian Province, PRC; telephone No.: +86 0592 5063275; and facsimile No.: +86 0592 5209808.

In relation to the final dividend

For determining the entitlement of Shareholders to receive the final dividend, the register of members of the Company will be closed from May 27, 2024 to May 30, 2024, both days inclusive, during which period no transfer of Shares will be registered.

To qualify for the final dividend, all share transfer documents accompanied by the corresponding share certificates must be lodged with the Company's branch H Share Registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. (Hong Kong time) on May 24, 2024. Unlisted Share Shareholders should contact the Board Secretary for details concerning registration of transfers of Unlisted Shares. The contact details of the Board Secretary are: Caizihui, No. 188, Qianpu Road, Siming District, Xiamen City, Fujian Province, PRC; telephone No.: +86 0592 5063275; and facsimile No.: +86 0592 5209808.

Publication of the Annual Results Announcement and the Annual Report

This announcement was published on the HKEXnews website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.yanzhiwu.com). The 2023 annual report containing all the information required by the Listing Rules will be published on the HKEXnews website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.yanzhiwu.com), and will be despatched to the Shareholders in accordance with the Listing Rules in due course.

Appreciation

On behalf of the Board, I would like to express our sincere gratitude to customers and business partners for their trust in the Company, our staff and management team for their diligence, dedication, loyalty and integrity, and the Shareholders for their continuous support.

DEFINITIONS

“AGM”	the forthcoming annual general meeting of the Company to be held on May 21, 2024
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors of the Company
“Board Secretary”	secretary to the Board
“CAGR”	compound annual growth rate
“CAIQ”	the Chinese Academy of Inspection and Quarantine (中國檢驗檢疫科學研究院)
“CG Code”	the Corporate Governance Code as set out in Appendix C1 to the Listing Rules
“Company”	Xiamen Yan Palace Bird’s Nest Industry Co., Ltd. (廈門燕之屋燕窩產業股份有限公司) (formerly known as Xiamen Yan Palace Bioengineering Co., Ltd. (廈門燕之屋生物工程股份有限公司)), a joint stock company established in the PRC with limited liability on December 23, 2020, the H shares of which are listed on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“EBN”	nests created by swiftlets with their saliva. EBN is highly valued in Chinese culture and has been a renowned delicacy in Chinese cuisine for over 400 years. It is known for its nutritional profile, which includes, among others, sialic acid, amino acid, collagen, glycoprotein, antioxidants, calcium, potassium, iron, magnesium and hormones. Traditional Chinese medicine attributes various health benefits to EBN, such as promoting overall wellness, boosting the immune system, enhancing focus and concentration, increasing energy and metabolism and regulating circulation. Modern scientific studies conducted by authoritative sources have further validated the perceived health benefits of EBN products

“EBN+ products”	ready-to-serve EBN products (with an EBN feed rate of 1% or above and up to 5%) enhanced with other ingredients and/or nutrients, such as ginseng and gamma-aminobutyric acid
“GDP”	gross domestic product
“Global Offering”	has the meaning ascribed to it under the Prospectus
“Group”, “our”, “we” or “us”	the Company and its subsidiary from time to time
“H Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of RMB0.2 each, which is/are listed on the Stock Exchange and traded in Hong Kong dollars
“H Share Incentive Scheme”	the 2024 H Share Incentive Scheme proposed to be adopted by the Company at the extraordinary general meeting to be convened on March 25, 2024, the rules of which are set out in Appendix I to the circular of the Company dated March 7, 2024
“H Share Shareholder(s)”	holder(s) of H Shares
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS Accounting Standards”	Includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (“IASB”)
“Listing Date”	December 12, 2023, being the date on which the H Shares of the Company were listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the Main Board of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 to the Listing Rules
“PRC” or “China”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Prospectus”	the prospectus issued by the Company on November 30, 2023 in connection with the Hong Kong public offering of the H Shares
“Remuneration and Appraisal Committee”	the remuneration and appraisal committee of the Board

“Reporting Period”	twelve months from January 1, 2023 to December 31, 2023
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the issued capital of the Company with a nominal value of RMB0.20 each, comprising Unlisted Share(s) and H Share(s)
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Unlisted Share(s)”	unlisted ordinary share(s) with a nominal value of RMB0.20 each, which are subscribed for and fully paid up in Renminbi
“Unlisted Shareholder(s)”	Shareholder(s) of Unlisted Shares
“+EBN products”	include certain food and skincare products that contain EBN or EBN extracts as an enhancement for elevated nutrition or other benefits. +EBN food products are products that use EBN (with an EBN feed rate of less than 1%) and other food ingredients as raw materials, such as EBN porridge. +EBN skincare products are products that contain EBN or EBN extracts, such as EBN facial masks and EBN essence
“%”	per cent

By Order of the Board
Xiamen Yan Palace Bird’s Nest Industry Co., Ltd.
廈門燕之屋燕窩產業股份有限公司
HUANG Jian
Chairman and Executive Director

Hong Kong, March 22, 2024

As at the date of this announcement, the Board comprises (i) Mr. HUANG Jian, Mr. ZHENG Wenbin, Mr. LI Youquan and Ms. HUANG Danyan as executive Directors; (ii) Mr. LIU Zhen and Mr. WANG Yalong as non-executive Directors; and (iii) Mr. XIAO Wei, Mr. CHEN Aihua and Mr. LAM Yiu Por as independent non-executive Directors.