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## **Honworld Group Limited**

**老恒和釀造有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2226)**

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

#### **FINANCIAL HIGHLIGHTS**

- Revenue for the year ended 31 December 2022 amounted to RMB271.6 million, representing an increase of 7.5% from RMB252.7 million recorded in 2021.
- Gross profit for the year ended 31 December 2022 amounted to RMB74.8 million, representing an increase of 9.2% from RMB68.5 million recorded in 2021.
- Loss attributable to ordinary equity holders of the Company for the year ended 31 December 2022 amounted to RMB486.3 million, representing an increase of 52.7% from RMB318.4 million recorded in 2021.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2022.

\* For identification purposes only

The board (the “**Board**”) of directors (the “**Directors**”) of Honworld Group Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**” or “**we**”) for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*Year ended 31 December*

|   | <i>Notes</i> | <b>2022</b><br><b>RMB’000</b> | 2021<br><i>RMB’000</i> |
|---|--------------|-------------------------------|------------------------|
| <b>Revenue</b>  | 4.1          | <b>271,600</b>                | 252,671                |
| Cost of sales   |              | <u>(196,784)</u>              | <u>(184,162)</u>       |
| <b>Gross profit</b>   |              | <b>74,816</b>                 | 68,509                 |
| Other income and gains  | 4.2          | <b>20,701</b>                 | 6,778                  |
| Selling and distribution expenses   |              | <b>(74,708)</b>               | (74,640)               |
| Administrative expenses   |              | <b>(44,392)</b>               | (61,273)               |
| Impairment losses, net  |              | <b>(23,182)</b>               | (12,553)               |
| Other expenses  | 5            | <b>(235,663)</b>              | (109,714)              |
| Finance costs   | 7            | <u><b>(203,911)</b></u>       | <u>(135,556)</u>       |
| <b>Loss before income tax</b>   | 6            | <b>(486,339)</b>              | (318,449)              |
| Income tax expense  | 8            | <u>–</u>                      | <u>–</u>               |
| <b>Loss for the year</b>  |              | <u><b>(486,339)</b></u>       | <u>(318,449)</u>       |
| <b>Loss per share attributable to ordinary equity holders of the Company</b>      |              |                               |                        |
| Basic and diluted ( <i>RMB</i> )  | 10           | <u><b>(0.84)</b></u>          | <u>(0.55)</u>          |
| <b>Loss for the year</b>  |              | <u><b>(486,339)</b></u>       | <u>(318,449)</u>       |
| <b>Items that will be reclassified subsequently to profit or loss</b>             |              |                               |                        |
| Exchange (loss)/gain on translation of financial statements of foreign operations |              | <u><b>(3,930)</b></u>         | <u>1,049</u>           |
| <b>Total comprehensive loss for the year</b>                                      |              | <u><b>(490,269)</b></u>       | <u>(317,400)</u>       |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

|   | <i>Notes</i> | <b>2022</b><br><b>RMB'000</b> | 2021<br><i>RMB'000</i> |
|---|--------------|-------------------------------|------------------------|
| <b>ASSETS AND LIABILITIES</b>                   |              |                               |                        |
| <b>Non-current assets</b>                       |              |                               |                        |
| Property, plant and equipment                   |              | <b>263,120</b>                | 273,388                |
| Right-of-use assets                             |              | <b>48,260</b>                 | 49,560                 |
| Other intangible assets                         |              | <b>1,122</b>                  | 1,432                  |
| Prepayments, other receivables and other assets | <i>13</i>    | <b>6,673</b>                  | 6,126                  |
|   |              | <b>319,175</b>                | 330,506                |
| <b>Current assets</b>                           |              |                               |                        |
| Inventories                                     | <i>11</i>    | <b>646,740</b>                | 653,611                |
| Trade receivables                               | <i>12</i>    | <b>20,484</b>                 | 19,136                 |
| Prepayments, other receivables and other assets | <i>13</i>    | <b>117,849</b>                | 136,055                |
| Amounts due from related companies              |              | <b>8,740</b>                  | 22,238                 |
| Pledged deposits                                |              | <b>283</b>                    | 1,205                  |
| Cash and cash equivalents                       |              | <b>9,806</b>                  | 31,015                 |
|   |              | <b>803,902</b>                | 863,260                |
| <b>Current liabilities</b>                      |              |                               |                        |
| Trade payables                                  | <i>14</i>    | <b>50,020</b>                 | 38,152                 |
| Other payables and accruals                     | <i>15</i>    | <b>411,704</b>                | 421,445                |
| Other liabilities                               | <i>17</i>    | <b>50,000</b>                 | 33,000                 |
| Amounts due to related companies                |              | <b>12,693</b>                 | 17,425                 |
| Amount due to ultimate holding company          |              | <b>48,751</b>                 | 44,621                 |
| Interest-bearing other borrowings               | <i>16</i>    | <b>2,209,031</b>              | 1,694,722              |
| Provision for loss on unauthorised guarantees   |              | <b>17,500</b>                 | 17,500                 |
| Tax payable                                     |              | <b>73,015</b>                 | 73,015                 |
|   |              | <b>2,872,714</b>              | 2,339,880              |
| <b>Net current liabilities</b>                  |              | <b>(2,068,812)</b>            | (1,476,620)            |
| <b>Total assets less current liabilities</b>    |              | <b>(1,749,637)</b>            | (1,146,114)            |

|                                   | <i>Notes</i> | <b>2022</b><br><b>RMB'000</b> | 2021<br><i>RMB'000</i> |
|-----------------------------------|--------------|-------------------------------|------------------------|
| <b>Non-current liabilities</b>    |              |                               |                        |
| Interest-bearing other borrowings | <i>16</i>    | <b>2,533</b>                  | 65,690                 |
| Other long term liabilities       | <i>17</i>    | <b>55,993</b>                 | 106,090                |
|                                   |              | <u><b>58,526</b></u>          | <u>171,780</u>         |
| <b>Net liabilities</b>            |              | <u><b>(1,808,163)</b></u>     | <u>(1,317,894)</u>     |
| <b>EQUITY</b>                     |              |                               |                        |
| Share capital                     | <i>18</i>    | <b>1,767</b>                  | 1,767                  |
| Reserves                          |              | <b>(1,809,930)</b>            | (1,319,661)            |
|                                   |              | <u><b>(1,808,163)</b></u>     | <u>(1,317,894)</u>     |
| <b>Total deficit</b>              |              | <u><b>(1,808,163)</b></u>     | <u>(1,317,894)</u>     |

## NOTES TO FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 4 December 2012 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. In the opinion of the directors, the holding company and the ultimate holding company of the Company is Key Shine Global Holdings Limited ("**Key Shine**"), which was incorporated in the British Virgin Islands ("**BVI**").

The Company is an investment holding company. During the year, the Group were principally engaged in the manufacture and sale of condiment products under the brand name of "Lao Heng He" in the People's Republic of China (the "**PRC**").

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 28 January 2014.

### 2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

#### 2.1 Basis of preparation

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") which collective term includes all applicable individual IFRSs, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**").

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended IFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 2.3.

The consolidated financial statements have been prepared on the historical cost basis.

## 2.2 Going concern assumption

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of its net cash used in operating activities of approximately RMB226,802,000 (2021: RMB97,809,000) and net loss of approximately RMB486,339,000 (2021: RMB318,449,000) incurred for the year ended 31 December 2022 and, as of that date, the Group had net current liabilities of approximately RMB2,068,812,000 (2021: RMB1,476,620,000), capital deficiency of approximately RMB1,808,163,000 (2021: RMB1,317,894,000) and accumulated losses of approximately RMB2,677,540,000 (2021: RMB2,191,201,000), respectively.

As at 31 December 2022, the Group's total borrowings comprising interest-bearing other borrowings amounting to approximately RMB2,211,564,000 (2021: RMB1,760,412,000), of which current borrowings amounted to approximately RMB2,209,031,000 (2021: RMB1,694,722,000) and approximately RMB1,671,025,000 (2021: RMB983,393,000) were overdue as disclosed in note 16 to the consolidated financial statements, while its cash and cash equivalents amounted to approximately RMB9,806,000 (2021: RMB31,015,000).

Despite of these circumstances, the consolidated financial statements have been prepared on a going concern basis on the assumption that the Group is able to operate as a going concern for the foreseeable future. In the opinion of the directors of the Company, the Group can meet its financial obligations as and when they fall due within the next year from the end of the reporting period, after taking into consideration of the measures and arrangements that the Group has implemented or is in the process of implementing as detailed below:

- The chargor, Wuxing City Investment HK Company Limited\* (“**Wuxing HK**”), has undertaken to provide continuing financial support to the Group for a period of twelve months from the date of approval of the consolidated financial statements by the directors in order to maintain the Group as a going concern;
- The Group is in negotiation with financial institutions for the renewals of the Group's short term borrowings upon expiry, new borrowings and applying for future credit facilities. Up to the date of approval of these consolidated financial statements, the Group's major lenders, 湖州吳興南太湖建設投資集團有限公司 (formerly known as 湖州吳興南太湖建設投資有限公司) (“**南太湖**”), 湖州湖盛融資租賃有限公司 (“**湖盛融資**”) and Huzhou Wuxing Chengshi Tousi Fazhan Jituan Youxian Gongsi 湖州吳興城市投資發展集團有限公司 (“**湖州吳興城市**”) have shown the positive support on the Group by not requiring the Group to repay the loan of RMB1,683,214,000, RMB234,524,000 and RMB170,601,000 (2021: RMB1,358,534,000, RMB207,918,000 and RMB138,736,000) respectively and has undertaken to provide new financing facilities of approximately RMB150,000,000 (2021: RMB300,000,000) for a period of twelve months from the date of approval of these consolidated financial statements. Therefore, the directors of the Company are confident that the entire borrowings can be renewed upon expiration and future credit facilities can be applied based on the Group's past experience and credit history; and

- The directors have evaluated all the relevant facts available to them and made a business plan to improve its liquidity by (i) monitoring the production activities in order to fulfill the forecast production volume and meet sales forecast, (ii) taking measures to tighten cost controls over various production costs and expenses, and (iii) any feasible financial arrangement.

The directors of the Company have reviewed the Group's cash flows forecast, prepared by management which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient cash resources to satisfy its working capital and other financial obligations for the next twelve months from the end of the reporting period after having taken into account of the Group's projected cash flows, current financial resources and capital expenditure requirements with respect to the production facilities and development of its business. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2022 on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows in the near future and obtain the continuous financial support from its chargor and major lenders.

Should the going concern assumption be inappropriate, adjustments may have to be made to write down the carrying values of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

- \* Pursuant to a share mortgage deed dated 2 April 2019, Key Shine charged 229,424,000 shares of the Company to Wuxing HK, which is wholly owned by 湖州吳興城市. 南太湖 and 湖盛融資 were also the subsidiaries of 湖州吳興城市.

## 2.3 Adoption of new and amended IFRSs

### *Amended IFRSs that are effective for annual periods beginning on 1 January 2022*

In the current year, the Group has applied for the first time the following amended IFRSs, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2022:

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

The adoption of the amended IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

## 3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of condiment products. For management purposes, the Group operates in one business unit and has one reportable operating segment as follows:

- The food segment that manufactures and sells condiment products.

As all of the Group's revenue is derived from the sale of its products to the customers in the PRC and all of the Group's identifiable non-current assets are located in the PRC, no geographical information as required by IFRS 8 Operating Segments is presented.

### **Information about major customers**

Revenue derived from sales to individual customer amounting to 10 percent or more of the Group's revenue for the reporting period is set out in the following table:

|            | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|------------|------------------------|------------------------|
| Customer A | <u>33,558</u>          | <u>29,235</u>          |



#### 4. REVENUE, OTHER INCOME AND GAINS

##### 4.1 Revenue from contracts with customers

An analysis of revenue is as follows:

|                                       | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|---------------------------------------|------------------------|------------------------|
| Revenue from contracts with customers |                        |                        |
| Sale of goods                         | <u>271,600</u>         | <u>252,671</u>         |

##### (i) *Disaggregation revenue information*

|                                      | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|--------------------------------------|------------------------|------------------------|
| <b>Type of goods</b>                 |                        |                        |
| Condiment products                   | <u>271,600</u>         | <u>252,671</u>         |
| <b>Timing of revenue recognition</b> |                        |                        |
| Goods transferred at a point in time | <u>271,600</u>         | <u>252,671</u>         |

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

|  | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|--|------------------------|------------------------|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: |                        |                        |
| Sale of goods  | <u>34,955</u>          | <u>25,546</u>          |

##### (ii) *Performance obligations*

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

##### *Sale of products*

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

## 4.2 Other income and gains

|   | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|---|------------------------|------------------------|
| Subsidies received ( <i>note (a)</i> )  | 2,114                  | 1,691                  |
| Bank interest income                    | 23                     | 20                     |
| Foreign exchange gain, net              | 13                     | 94                     |
| Compensation income ( <i>note (b)</i> ) | 14,200                 | –                      |
| Others                                  | 4,351                  | 4,973                  |
|   | <u>20,701</u>          | <u>6,778</u>           |

*Notes:*

- (a) The amount represented subsidies received from the relevant authorities in the PRC without any unfulfilled conditions.
- (b) During the year ended 31 December 2022, the Group commenced litigations against suppliers for non-performance of contracts and the court has required the defendants to pay the compensation of RMB14,200,000 to the Group.

## 5. OTHER EXPENSES

|   | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|---|------------------------|------------------------|
| Donations   | 70                     | 72                     |
| Surcharge for overdue tax payment ( <i>note</i> ) | 56,206                 | 57,883                 |
| Overdue interest expense ( <i>note 16(c)</i> )    | 179,357                | 48,600                 |
| Others  | 30                     | 3,159                  |
|   | <u>235,663</u>         | <u>109,714</u>         |

*Note:*

The amount represented the provision of surcharge for overdue tax payment to be imposed by the State Administration of Taxation in the PRC.

## 6. LOSS BEFORE INCOME TAX

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

|   | <i>Notes</i> | <b>2022</b><br><b>RMB'000</b> | 2021<br><i>RMB'000</i> |
|---|--------------|-------------------------------|------------------------|
| Costs of inventories sold   |              | <b>196,784</b>                | 184,162                |
| (Reversal of provision)/Provision for inventories, net              | <i>11</i>    | <b>(2,184)</b>                | 802                    |
| Depreciation of owned assets  |              | <b>27,387</b>                 | 26,263                 |
| Depreciation of right-of-use assets                                 |              | <b>1,300</b>                  | 2,412                  |
| Amortisation of other intangible assets                             |              | <b>310</b>                    | 306                    |
| Lease payments not included in the measurement of lease liabilities |              | <b>130</b>                    | 192                    |
| Auditor's remuneration  |              | <b>3,550</b>                  | 4,300                  |
| (Reversal of impairment losses)/Impairment losses on:               |              |                               |                        |
| — trade receivables   |              | <b>(209)</b>                  | 1,722                  |
| — prepayment and other receivables                                  |              | <b>1,979</b>                  | (194)                  |
| — amounts due from related companies                                |              | <b>(2,497)</b>                | 2,531                  |
| — right-of-use assets   |              | <b>—</b>                      | 2,789                  |
|   |              | <b>(727)</b>                  | 6,848                  |
| Written off of inventories  |              | <b>23,909</b>                 | 5,705                  |
| Employee benefit expenses<br>(excluding directors' remuneration):   |              |                               |                        |
| — wages and salaries  |              | <b>36,839</b>                 | 35,434                 |
| — pension scheme contributions ( <i>note</i> )                      |              | <b>5,639</b>                  | 4,021                  |
|   |              | <b>42,478</b>                 | 39,455                 |
| Research and development costs                                      |              | <b>10,258</b>                 | 12,174                 |
| Donations   | <i>5</i>     | <b>70</b>                     | 72                     |
| Foreign exchange gain, net  | <i>4.2</i>   | <b>(13)</b>                   | (94)                   |

*Note:*

As at 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2021: Nil).

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

|                               | <b>2022</b>           | 2021           |
|-------------------------------|-----------------------|----------------|
|                               | <b><i>RMB'000</i></b> | <i>RMB'000</i> |
| Interest on bank loans        | –                     | 16,670         |
| Interest on other borrowings  | <b>203,598</b>        | 116,109        |
|                               | <hr/>                 | <hr/>          |
|                               | <b>203,598</b>        | 132,779        |
| Interest on lease liabilities | <b>313</b>            | 2,777          |
|                               | <hr/>                 | <hr/>          |
|                               | <b>203,911</b>        | 135,556        |
|                               | <hr/> <hr/>           | <hr/> <hr/>    |

## 8. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands, the Group was not subject to any income tax in the Cayman Islands.

The corporate income tax of the Group in respect of its operations in Mainland China has been provided at the rate of 25% (2021: 25%) on the taxable profits, based on the existing legislation, interpretations and practices in respect thereof.

|  | <b>2022</b>           | 2021           |
|--|-----------------------|----------------|
|  | <b><i>RMB'000</i></b> | <i>RMB'000</i> |
| Current — PRC                                |                       |                |
| Under-provision in respect of the prior year | –                     | –              |
|  | <hr/>                 | <hr/>          |
| Total tax charge for the year                | –                     | –              |
|  | <hr/> <hr/>           | <hr/> <hr/>    |

A reconciliation of the income tax expense applicable to loss before income tax at the statutory rate for the jurisdiction where most of the Company's subsidiaries are located to the tax expense at the effective tax rate is as follows:

|  | 2022               |                    | 2021               |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | RMB'000            | %                  | RMB'000            | %                  |
| Loss before income tax                                   | (486,339)          |                    | (318,449)          |                    |
| Tax at the statutory tax rate                            | (121,585)          | 25.0               | (79,612)           | 25.0               |
| Lower tax rate enacted by the local authority            | 201                | 0.0                | 31,711             | (10.0)             |
| Tax effect of unrecognised temporary differences         | 1,969              | (0.4)              | 481                | (0.2)              |
| Tax losses not recognised                                | 102,410            | (21.1)             | 35,269             | (11.0)             |
| Tax effect of expenses not deductible<br>for tax purpose | 18,735             | (3.9)              | 12,885             | (4.0)              |
| Tax effect of income not taxable for tax purpose         | (1,730)            | 0.4                | (734)              | 0.2                |
| Tax charge at the Group's effective rate                 | <u>          -</u> | <u>          -</u> | <u>          -</u> | <u>          -</u> |

As at the reporting date, the Group has not recognised deferred tax assets in respect of tax losses and deductible temporary differences of approximately RMB1,062,307,000 (2021: RMB652,667,000) and RMB45,793,000 (2021: RMB37,918,000), respectively. Of the total unrecognised tax losses, approximately RMB1,062,307,000 (2021: RMB652,667,000) may be carried forward for five years from the year of incurring the loss, and the remaining unrecognised tax losses have no expiry dates. No deferred tax asset has been recognised in respect of those tax losses and deductible temporary differences due to the unpredictability of future profit streams.

## 9. DIVIDENDS

No dividend has been paid or declared by the Company during the years ended 31 December 2022 and 2021, nor has any dividend been proposed since the end of the reporting period.

## 10. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 578,750,000 (2021: 578,750,000) in issue during the year.

|  | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|--|------------------------|------------------------|
| Loss attributable to ordinary equity holders of the Company<br>( <i>RMB'000</i> )                              | (486,339)              | (318,449)              |
| Weighted average number of ordinary shares in issue ( <i>in thousands</i> )                                    | <u>578,750</u>         | <u>578,750</u>         |
| Loss per share attributable to ordinary equity holders<br>of the Company<br>— Basic and diluted ( <i>RMB</i> ) | <u>(0.84)</u>          | <u>(0.55)</u>          |

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2022 and 2021 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

## 11. INVENTORIES

|                  | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|------------------|------------------------|------------------------|
| Raw materials    | 9,784                  | 11,222                 |
| Work in progress | 617,627                | 631,304                |
| Finished goods   | <u>19,329</u>          | <u>11,085</u>          |
|                  | <u>646,740</u>         | <u>653,611</u>         |

The Group has a significant balance of inventories and needs to maintain the majority of its base wine at an appropriate level for a period over one year to meet the future production needs. The determination of the value of inventories, which are stated at the lower of cost and net realisable value, involved significant estimation, which were influenced by the assumptions concerning future sales and usage and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items.

During the year ended 31 December 2022, the Group has written off the obsolete inventories of approximately RMB23,909,000 (2021: RMB5,705,000). The significant increase in written off of inventories during the year ended 31 December 2022 is mainly due to the decrease in the estimated net realisable value of certain condiment products as a result of change in market condition and the cessation of sales to the Associates of Mr. Chen Weizhong from October 2022.

At 31 December 2022, the carrying amount of inventories included provision of approximately RMB3,617,000 (2021: RMB5,801,000), which is determined with reference to the net realisable value of the inventory items. The reversal of provision approximately RMB2,184,000 (2021: additional provision approximately RMB802,000) was made during the year ended 31 December 2022.

At 31 December 2022, the Group's inventories with a carrying amount of RMB556,115,000 (2021: RMB612,742,000) were pledged to secure other borrowings granted to the Group, as further detailed in note 16(d) to the consolidated financial statements.

## 12. TRADE RECEIVABLES

|                                   | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|-----------------------------------|------------------------|------------------------|
| Trade receivables, gross          | 23,949                 | 24,510                 |
| Less: Allowance for credit losses | <u>(3,465)</u>         | <u>(5,374)</u>         |
| Trade receivables, net            | <u><u>20,484</u></u>   | <u><u>19,136</u></u>   |

The Group's trading terms with its customers are mainly on credit. The credit period is generally one to three months.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

|                    | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|--------------------|------------------------|------------------------|
| Within 3 months    | 16,545                 | 15,947                 |
| 3 to 6 months      | 2,932                  | 1,775                  |
| 6 months to 1 year | <u>1,007</u>           | <u>1,414</u>           |
|                    | <u><u>20,484</u></u>   | <u><u>19,136</u></u>   |

## 13. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

|  | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|--|------------------------|------------------------|
| Prepayments ( <i>note</i> )  | 11,026                 | 6,188                  |
| Less: Impairment   | (1,949)                | (1,160)                |
| Value-added tax recoverable  | 90,439                 | 117,220                |
| Deposits and other receivables ( <i>note</i> )                                 | 26,618                 | 20,355                 |
| Less: Allowance for credit losses  | <u>(1,612)</u>         | <u>(422)</u>           |
|  | 124,522                | 142,181                |
| Less: Portion classified as non-current assets                                 | <u>(6,673)</u>         | <u>(6,126)</u>         |
| Current portion included in prepayments,<br>other receivables and other assets | <u><u>117,849</u></u>  | <u><u>136,055</u></u>  |

*Note:*

Details of prepayments, deposits and other receivables as at 31 December 2022 and 2021 are as follows:

|  | <b>2022</b>           | 2021           |
|--|-----------------------|----------------|
|  | <b><i>RMB'000</i></b> | <i>RMB'000</i> |
| Prepayments for fixed assets   | <b>6,673</b>          | 2,109          |
| Prepayments for procurements of condiment products                             | <b>1,936</b>          | 894            |
| Other prepayments  | <b>2,417</b>          | 3,185          |
| Deposits and other receivables ( <i>note</i> )                                 | <b>26,618</b>         | 20,355         |
|  | <b>37,644</b>         | 26,543         |
| Less:  |                       |                |
| Portion classified as non-current assets                                       | <b>(6,673)</b>        | (6,126)        |
| Current portion included in prepayments,<br>other receivables and other assets | <b>30,971</b>         | 20,417         |

*Note:*

Included in the balances was mainly the guarantee deposit paid for sale and leaseback arrangements (note 16(f)) of approximately RMB18,795,000 (2021: approximately RMB16,971,000).

Impairment analysis is performed at each reporting date and ECLs are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The financial assets included in the above balance were categorised in Stage 1 at the year of the reporting period. In calculating the ECL rate, the Group considers the historical loss rate and adjusts for forward-looking data.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts.



#### 14. TRADE PAYABLES

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

|                 | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|-----------------|------------------------|------------------------|
| Within 3 months | 31,521                 | 28,298                 |
| 3 to 6 months   | 16,322                 | 4,324                  |
| Over 6 months   | 2,177                  | 5,530                  |
|                 | <u>50,020</u>          | <u>38,152</u>          |

Trade payables of the Group are non-interest-bearing and are normally settled on terms of one to six months, extending to longer period for those long standing suppliers. The carrying amounts of the trade payables approximate to their fair values.

#### 15. OTHER PAYABLES AND ACCRUALS

|                             | <i>Notes</i> | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|-----------------------------|--------------|------------------------|------------------------|
| Contract liabilities        | <i>(a)</i>   | 32,736                 | 34,955                 |
| Other tax payables          | <i>(b)</i>   | 165,527                | 207,326                |
| Other payables and accruals | <i>(c)</i>   | 204,282                | 170,706                |
| Amount due to a director    |              | 9                      | 11                     |
| Salary payables             |              | 9,150                  | 8,447                  |
|                             |              | <u>411,704</u>         | <u>421,445</u>         |

*Notes:*

(a) Details of contract liabilities are as follows:

|   | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|---|------------------------|------------------------|
| Short-term advances received from customers |                        |                        |
| Sales of goods                              | 32,736                 | 34,955                 |

Contract liabilities include short-term advances received to deliver products. The decrease in contract liabilities in 2022 was mainly due to the decrease in short-term advances received from customers in relation to the provision of sale of goods at the end of the year.

(b) Included in the balances was mainly the value added tax payable of approximately RMB149,991,000 (2021: approximately RMB175,328,000).

(c) Included in the balances was mainly the provision of surcharge for overdue tax payment and equipment and construction costs payables of approximately RMB178,942,000 and RMB7,473,000, respectively (2021: RMB128,200,000 and RMB5,777,000).

## 16. INTEREST-BEARING OTHER BORROWINGS

|  | 31 December 2022 |           |                  | 31 December 2021 |           |                  |
|--|------------------|-----------|------------------|------------------|-----------|------------------|
|  | Effective        | Maturity  | RMB'000          | Effective        | Maturity  | RMB'000          |
|  | interest rate    |           |                  | interest rate    |           |                  |
| (%)  | (%)              |           | (%)              |                  |           |                  |
| <b>Current</b>                                     |                  |           |                  |                  |           |                  |
| Lease liabilities                                  | 4.75–4.90        | 2023      | 1,308            | 4.75–4.90        | 2022      | 1,004            |
| Other borrowings — unsecured <sup>(a)(c)(e)</sup>  | 7.00–24.00       | 2022      | 119,384          | 7.42–24.00       | 2022      | 50,495           |
| Other borrowings — secured <sup>(b)(c)(d)(f)</sup> | 10.65–15.32      | 2022      | 2,088,339        | 10.65–15.32      | 2022      | 1,643,223        |
|  |                  |           | <u>2,209,031</u> |                  |           | <u>1,694,722</u> |
| <b>Non-current</b>                                 |                  |           |                  |                  |           |                  |
| Lease liabilities                                  | 4.75–4.90        | 2024–2029 | 2,533            | 4.75–4.90        | 2023–2029 | 3,725            |
| Other borrowings — secured <sup>(b)(c)(d)(f)</sup> |                  |           | –                | 15.32            | 2023      | 61,965           |
|  |                  |           | <u>2,533</u>     |                  |           | <u>65,690</u>    |
| Total  |                  |           | <u>2,211,564</u> |                  |           | <u>1,760,412</u> |
| Analysed into:                                     |                  |           |                  |                  |           |                  |
| Within one year or on demand                       |                  |           | 2,209,031        |                  |           | 1,694,722        |
| In the second year                                 |                  |           | 857              |                  |           | 62,432           |
| In the third year to fifth years, inclusive        |                  |           | 1,642            |                  |           | 2,853            |
| Beyond five years                                  |                  |           | 34               |                  |           | 405              |
|  |                  |           | <u>2,211,564</u> |                  |           | <u>1,760,412</u> |

### Notes:

- (a) As at 31 December 2022, included in the balances was other borrowings amounting to approximately RMB119,384,000 (2021: RMB50,495,000) which was unsecured, bearing interest at 7.00%–24.00% (2021: 7.42%–24.00%) per annum and repayable within one year (2021: repayable within one year).
- (b) As at 31 December 2022, included in the balances was other borrowings amounting to approximately RMB2,088,339,000 (2021: RMB1,705,188,000) which was secured, bearing interest at 10.65%–15.32% (2021: 10.65%–15.32%) per annum and repayable within one year (2021: repayable within one to two years), in which RMB1,683,214,000, RMB170,601,000 and RMB234,524,000 (2021: RMB1,358,534,000, RMB138,736,000 and RMB207,918,000) was from 南太湖, 湖州吳興城市 and 湖盛融資 respectively. Mr. Chen Wei was the chief executive of 湖州吳興城市, which is the holding company of 南太湖 and 湖盛融資.
- (c) As at 31 December 2022, the Group's other borrowings amounting to approximately RMB1,671,025,000 (2021: RMB983,393,000) in principal amount were overdue and the related overdue interest expense of approximately RMB179,357,000 (2021: RMB48,600,000) (note 5) was recognised for the year ended 31 December 2022.

- (d) At the end of the reporting period, certain of the Group's assets were pledged to the lenders for securing the other borrowings granted to the Group.

The carrying values of these assets are:

|                               | <i>Notes</i> | <b>2022</b><br><b>RMB'000</b> | 2021<br><i>RMB'000</i> |
|-------------------------------|--------------|-------------------------------|------------------------|
| Property, plant and equipment |              | <b>211,737</b>                | 235,213                |
| Right-of-use assets           |              | <b>48,260</b>                 | 49,560                 |
| Inventories                   | <i>11</i>    | <b>556,115</b>                | 612,742                |
|                               |              | <b>816,112</b>                | 897,515                |

- (e) As at 31 December 2022, included in the balances was other borrowings amounting to approximately RMB17,075,000 (2021: RMB16,353,000) that were withdrawn on behalf of a related company, Zhejiang Zhongwei. The amount was unsecured, bore interest at 24.00% per annum and repayable on demand.
- (f) The amount included certain sales and leaseback arrangements of machinery and equipment with remaining lease terms of 1 year (2021: 1–2 years) as at 31 December 2022. According to the sale and leaseback agreements, if no default occurs during the lease term, the ownership of the plant and machinery shall be automatically transferred to the lessee at a nominal consideration.

The management assessed the accounting treatment and was of the view that the Group have control over the machinery and equipment as the Group had the option to acquire the assets at nominal consideration at the end of the lease period. Thus the transfer of the machinery and equipment to the lender did not satisfy the requirement of IFRS 15 to be accounted for as a sales of assets and the Group shall continue to recognise the transferred assets as property, plant and equipment and shall recognised transfer proceeds from the lender as other borrowings.

## 17. OTHER LONG TERM LIABILITIES

|  | <b>2022</b><br><b>RMB'000</b> | 2021<br><i>RMB'000</i> |
|--|-------------------------------|------------------------|
| Other long-term payables ( <i>note</i> ) | <b>50,000</b>                 | 100,000                |
| Provision for long service payment       | <b>5,993</b>                  | 6,090                  |
|  | <b>55,993</b>                 | 106,090                |

*Note:*

On 6 May 2016, two wholly-owned subsidiaries of the Company, Huzhou Chenshi and Huzhou Laohenghe, which is also a wholly-owned subsidiary of Huzhou Chenshi, entered into an investment agreement with China Development Fund Co., Ltd. (the “**CD Fund**”) (國開發基金有限公司) (the “**Investment Agreement**”). Pursuant to the Investment Agreement, the CD Fund agreed to subscribe for a 3.5% equity interest in Huzhou Laohenghe at a total cash consideration of RMB133,000,000 (the “**Capital Investment**”) and Huzhou Laohenghe shall pay the CD Fund a fixed annual return equal to 1.2% of the Capital Investment from the date of the agreement. In addition, Huzhou Chenshi has a contractual obligation to repurchase the entire equity interest in Huzhou Laohenghe held by the CD Fund within 8 years according to the repayment schedule under the Investment Agreement.

Further details of the Investment Agreement have been disclosed in the announcements of the Company dated 9 May 2016 and 29 June 2016, respectively.

As Huzhou Chenshi does not have the unconditional right to avoid delivering cash to the CD Fund pursuant to the Investment Agreement, the Capital Investment of RMB133,000,000 was recorded as a financial liability.

According to the repayment schedule under the Investment Agreement, RMB50,000,000 was payable within the year ended 31 December 2023 (RMB33,000,000 was payable within the year ended 31 December 2022), RMB50,000,000 (2021: RMB33,000,000) was reallocated as current portion included in other liabilities as at 31 December 2022. The remaining balance was payable on 2 February 2024.

The balance of other long term payables was analysed as follows:

|   | <b>2022</b>            | 2021            |
|---|------------------------|-----------------|
|   | <b><i>RMB'000</i></b>  | <i>RMB'000</i>  |
| Other long-term payables  | <u><b>100,000</b></u>  | <u>133,000</u>  |
| Less:   |                        |                 |
| Portion classified as current portion included in other liabilities | <u><b>(50,000)</b></u> | <u>(33,000)</u> |
| Non-current portion   |                        |                 |
| More than 1 but within 5 years                                      | <u><b>50,000</b></u>   | <u>100,000</u>  |

## 18. SHARE CAPITAL

Details of movement of the share capital of the Company are as follows:

|  | At<br>31 December<br>2022<br><i>RMB'000</i> | At<br>1 January<br>2021 and<br>31 December<br>2021<br><i>RMB'000</i> |
|--|---|--|
| Authorised:  |   |  |
| 1,000,000,000 ordinary shares of USD0.0005 (RMB0.00305) each | <u>3,050</u>                                | <u>3,050</u>   |
| Issued and fully paid:                                       |   |  |
| 578,750,000 ordinary shares of USD0.0005 (RMB0.00305) each   | <u>1,767</u>                                | <u>1,767</u>   |

## 19. EVENTS AFTER THE REPORTING PERIOD

### (a) Agreements with related parties

In 2023, 南太湖, 湖州吳興城市 and 湖盛融資 have confirmed that they do not intend to demand payment from the Group for the amount due to them for a period of twelve months from the date of approval of these consolidated financial statements.

### (b) Enforcement of share mortgage against the shareholding of a controlling shareholder

Reference is made to the Company's announcement dated 27 February 2023 regarding the enforcement of share mortgage against the shareholding of a controlling shareholder.

Pursuant to a share mortgage deed dated 2 April 2019 (the "**Wuxing Share Mortgage**") entered into between Key Shine (as the mortgagor) and Wuxing HK (as the mortgagee), Key Shine charged 229,424,000 shares in the Company (the "**Mortgaged Shares**"), representing approximately 39.64% of the issued shares of the Company, in favour of Wuxing HK.

On 24 December 2019, an interim injunction order made by the High Court of Hong Kong against Key Shine, prohibiting Key Shine from the selling, trading, transferring, assigning, conveying or otherwise disposing of any of the shareholding in the Company registered in the name of Key Shine (the "**Order**"). The board of directors of the Company has been informed that Wuxing HK is planning to enforce its rights in relation to the Mortgaged Shares, which is subject to, inter alia, the discharge of the Order.

By an order granted by the High Court of Hong Kong on 17 February 2023, the Order was discharged to the extent of the 229,424,000 Shares charged by Key Shine to Wuxing HK pursuant to the Wuxing Share Mortgage.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

We are one of the leading manufacturers of condiment products in the People’s Republic of China (the “**PRC**” or “**China**”). We offer high quality and healthy brewed cooking wine as well as other condiments, including naturally-brewed soy sauce, naturally-brewed vinegar, soybean paste, sesame oil and fermented bean curd. In 2022, we attained the following achievements:

1. We were awarded as the title of “2022 Huzhou Intellectual Property Rights Demonstration Enterprise” by the Huzhou Municipal Administration for Market Regulation (湖州市市場監督管理局) of Zhejiang Province;
2. Our research project, Key Technological Development and Applications for Yellow Wine Tank Storage and Aging Quality Control, was awarded the second prize for scientific technology improvement (科學進步二等獎) by the China National Light Industry Council;
3. Our product, grain brewed shallot and ginger cooking wine (aged for five years), was awarded the title of “Gold Award of Cooking Wine of the 3rd Year” at the 17th International Wine Expo and the 3rd Grain Brewed Cooking Wine Selection of China;
4. Our “Lao Heng He Cooking Wine” brand was awarded the title of “2022 Cooking Wine Gold Best Seller” of offline cooking wine of 2022 by Fast Moving Consumer Goods (FMCG) Weekly Magazine, and the market share of the Group’s offline sales was 17.7% in 2022, ranking first for the fifth consecutive year in the industry.

2022 was a difficult year for all industries around the world. Facing the increasing raw material prices, rising labour costs and the weak consumer market caused by the ongoing pandemic, the condiment manufacturing industry has been particularly difficult. Over the past three years, the Group had encountered both internal and external challenges. With the strong support of the municipal and district governments and the efforts of all colleagues in the Company, the Group has gradually resumed normal operations. This has alleviated the heavy burden on the Group as a century-old Chinese brand and injected new vitality into its development, laying a solid foundation for the Group to realize the next century dreams.

In 2022, the Group continued to uphold the long-standing motto of “Preseverance combined with good naturalness and creditworthiness (恒以持之、和信為本)” for over 160 years, as well as the basic principle and operating policies of “focusing on the naturally-brewed cooking wine industry and refining other industries (聚焦天然釀造料酒產業、其他產業做精做細)”. With the care and support of governments at all levels

and various sectors of society, and based on the hard work of front-line employees, the Group is grateful for the companionship of its distributors and loyal consumers. The overall reform of the Group is proceeding in an orderly manner, and the development strategy is gradually being implemented. The Group safely navigated through a difficult year and overcome obstacles on its development journey.

In 2022, as for market strategy, the Group has engaged Shanghai Osens Creative of Culture Co., Ltd (上海歐賽斯文化創意有限公司) to provide a full-scale upgrade package for our current brand positioning, LOGO & image, marketing slogans and product packaging, external image, market positioning and strategies and promotional campaigns, so as to enhance the brand image of “Lao Heng He (老恒和)” among consumers and put forward the core concept of “fragrance of time (時間至香)” cooking wine for the first time. By adopting a brand new appearance under our “grand brand, big single product and national product (大品牌、大單品、國民產品)” strategy, the Group strived to capture the high ground in the condiment and cooking wine industries.

In respect of internal management, the Group has engaged Adfaith Management Consulting Co., Ltd (正略鈞策集團股份有限公司) to perfect and supplement all aspects of the original group organizational structure, departmental responsibilities, compensation incentives, and performance evaluations, and to enhance the robustness of the internal control management of the Group from an institutional perspective. The Company has established a brand new mechanism suitable for its future development, which is premised on the employment orientation of “promoting the capable, yielding to the average, demoting the mediocre, and eliminating the inferior (能者上，平者讓，庸者下，劣者汰)”. Through optimizing the compensation and welfare system and performance management system, new standards for personnel selection, employment, education, and retention, an efficient management team with cohesion, creativity, and execution has been created under the introduction of external talent and the cultivation of internal talent over the past three years.

In respect of product quality control, the Group has achieved dual upgrading of software and hardware in terms of quality control, strengthened technical support and improved the ability to guarantee food safety technology by purchasing relevant testing equipment and strengthening the quality control training of relevant personnel. We have strengthened and improved the food safety control system to strictly control the process from raw materials, processing, factory inspection to storage, transportation and sales. We have built a whole-process digital food safety traceability system, so as to implement code control of each product, formulate emergency plans and disposal plans for food safety accidents, establish a sound risk management and control mechanism, implement food safety hazard investigation, and carry out monitoring measures such as daily control, weekly inspection and monthly scheduling.

In respect of production workshop management, the Group reconstructed and upgraded the existing equipment, improved and innovated the process, formulated standardized systems, optimized the operation process, and improved the operation level of the production management team. Meanwhile, in order to further expand the market and develop new products, the Group purchased new production line equipment to enhance the labour efficiency of the workshop, expand the production capacity and reduce the production cost, so that the Group would manifest the core competitive strengths of its products in the market.

In 2022, the Group achieved a sales revenue of approximately RMB271.6 million, representing an increase of approximately RMB18.9 million or approximately 7.5% as compared to the corresponding period in 2021. This was mainly attributable to two reasons on the one hand: during the epidemic in Shanghai, the Group shouldered the social responsibility of ensuring the product supply for people's livelihood in Eastern China. The Group coordinated with various parties regardless of the significant increase in logistics costs, and the front-line employees have worked hard to fulfill the government's requirements for ensuring supply in a timely and measured manner. Meanwhile, the Group's "Lao Heng He (老恒和)" branded products have won the recognition of the people of Eastern China, which has effectively promoted the channel adjustment and terminal penetration in Eastern China, resulting in an increase in sales revenue in Eastern China of approximately RMB27.9 million or approximately 17.1% as compared to the corresponding period in 2021; on the other hand, due to the impact of the increase in the travel restrictions caused by the epidemic, which led to the decrease in residents social activities and the suspension of work of enterprises, and accordingly our sales performance. However, with the gradual improvement of the national epidemic situation, the sales in various regions have shown a sign of gradual recovery.

In 2022, our cooking wine products remained as a major source of revenue of the Company, accounting for approximately 64.9% of our total revenue. With the shift in consumer preference towards "zero-additive" soy sauce products since the fourth quarter of 2022, the sales revenue from our soy sauce products amounted to approximately RMB23.8 million, representing approximately 8.8% of total revenue during the year. We will strive to optimise the quality of our zero-additive soy sauce products and enhance product packaging so as to increase our sales of soy sauce product.

For market expansion in 2022, we continued to adopt the market penetration strategy we adopted in 2021, aiming to attract new customers and enhance the loyalty of old customers through providing high-quality products and expanding product portfolio to ensure the steady development of our distributor network in response to the adverse impact of the pandemic on the business environment. As at 31 December 2022, the Group had 815 distributors. The Group has accelerated its penetration into the fourth- and fifth-tier cities across 30 provinces, autonomous regions and municipalities in China. The Company will continue to promote channel penetration and strive to ensure that more than 300 new distributors will be added in 2023. The Company will focus on the



development of distribution and catering channels in the Yangtze River Delta region, and increase investment in the promotion rate of terminal products through a number of preferential measures, so that our “Lao Heng He (老恒和)” series products can benefit every community and township in the region. In order to match with the aforesaid market penetration strategy and to cope with the adverse factors of the pandemic and the increase in raw material and labour costs, the Group adjusted the product structure and increased the sales prices of certain products such as certain major cooking wine, soy sauce and fermented bean curd products. As a result, the gross profit margin of the Group’s products increased from 27.1% in 2021 to 27.5% in 2022.

The loss attributable to ordinary equity holders of the Company was approximately RMB486.3 million (2021: RMB318.4 million), representing an increase of approximately 52.7% as compared to the corresponding period in 2021, mainly due to the increase in finance costs arising from new interest-bearing other borrowings raised during the year. Based on the expected growth in sales of cooking wine, soy sauce, rice vinegar, fermented bean curd and other products as a result of the growing demand from existing customers and further development of sales channels, we believe that a rich and diversified condiment product portfolio will be more beneficial to the business development of the Group in the coming years. Therefore, we are planning to further develop the horizontal and vertical condiment industry chain, and make the Group a diversified condiment manufacturer with cooking wine as the leading product.

Our profitability mainly depends on product pricing and cost of sales, marketing strategies and product structure and composition, as well as factors in reform. We actively monitor any potential risk factors that may affect our financial results and strive to mitigate the increase in costs and expenses with more efficient operations and better product portfolio to promote sales volume growth from channel penetration. However, the Group also faces certain risks in its business development process, including: (1) risks of significant increase in production costs, such as increase in the prices of agricultural and sideline products, packaging costs and labour costs; (2) changes in consumer behavior and habits caused by changes in consumers’ perception of condiment products, which have a negative impact on our sales; (3) significant increase in market expansion costs and sales expenses as compared with the Company’s expectations; (4) risks that our new products may not be recognized by the market in the short term; and (5) intensified competition in the industry brought by new entrants.

## Financial Review

### Overview

The key financial indicators of the Group are as follows:

|   | Year ended 31 December |                        | Year-on-year<br>Change<br>% |
|---|------------------------|------------------------|-----------------------------|
|   | 2022<br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |                             |
| <b>Income statement items</b>   |                        |                        |                             |
| Revenue   | <b>271,600</b>         | 252,671                | 7.5                         |
| Gross profit  | <b>74,816</b>          | 68,509                 | 9.2                         |
| Loss attributable to owners of<br>the Company                               | <b>(486,339)</b>       | (318,449)              | 52.7                        |
| Loss before interest, taxes,<br>depreciation and amortization<br>("LBITDA") | <b>(253,431)</b>       | (153,912)              | 64.7                        |
| Loss per share ( <i>RMB</i> ) ( <i>note (a)</i> )                           | <b>(0.84)</b>          | (0.55)                 | 52.7                        |
| <b>Selected financial ratios</b>  |                        |                        |                             |
| Gross profit margin (%)   | <b>27.5</b>            | 27.1                   | 1.5                         |
| Net loss margin (%)   | <b>(179.1)</b>         | (126.0)                | 42.1                        |
| LBITDA margin (%)   | <b>(93.3)</b>          | (60.9)                 | 53.2                        |
| Return on equity holders' equity (%)  | <b>(26.9)</b>          | (24.2)                 | 11.2                        |
| Gearing ratio ( <i>note (b)</i> ) (%)                                       | <b>273.8</b>           | 220.9                  | 23.9                        |

#### Notes:

- (a) Please refer to note 10 to the consolidated financial statements of this announcement for the calculation of loss per share.
- (b) The gearing ratio is based on net debt divided by total deficit plus net debt as at 31 December 2022. Net debt includes total debt net of cash and cash equivalents. Total debt includes trade payables, other payables and accruals, amounts due to related companies, amount due to ultimate holding company, interest-bearing other borrowings, provision for loss on unauthorised guarantees and other long term liabilities.

## **Revenue**

The revenue of the Group increased by 7.5% from RMB252.7 million in 2021 to RMB271.6 million in 2022, primarily attributable to the combined effect of (i) the Group's efforts in ensuring product supply for people's livelihood during the epidemic in Shanghai, which increased the recognition of the Group's products among people in Eastern China, resulting in an increase in sales revenue in Eastern China of approximately RMB27.9 million or approximately 17.1% as compared to the corresponding period in 2021; (ii) the impact of travel restrictions caused by the epidemic which led to the decrease in social activities and suspension of work of enterprises, resulting in a decrease in sales revenue in some regions outside Eastern China; and (iii) the increase in sales prices of some of the Group's products.

Revenue from cooking wine products increased by 3.7% from RMB169.9 million in 2021 to RMB176.2 million in 2022, primarily due to the combined effects of the improvement of the COVID-19 pandemic and the increase in large order.

Revenue from the Group's soy sauce products decreased by 8.1%, from RMB25.9 million in 2021 to RMB23.8 million in 2022, primarily due to the shift in consumer preference towards "zero-addictive" soy sauce products since the fourth quarter of 2022.

Revenue from the Group's rice vinegar products decreased by 3.3% from RMB18.4 million in 2021 to RMB17.8 million in 2022, primarily due to the decrease in market demand for certain rice vinegar products (such as crab vinegar) as a result of the pandemic in 2022.

In addition to launching new products into the market and developing our sesame oil products, we also adjusted the product portfolio of our other products during the year by downsizing products with poor market performance and focusing on products with good market reception. As a result, the Group's revenue from other products increased by 39.7% from RMB38.5 million in 2021 to RMB53.8 million in 2022.

## **Cost of Sales**

Our cost of sales increased by 6.8% from RMB184.2 million in 2021 to RMB196.8 million in 2022. The increase in cost of sales was primarily attributable to the increased prices of raw materials and energy.

## **Gross Profit and Gross Profit Margin**

Our gross profit increased by 9.2% from RMB68.5 million in 2021 to RMB74.8 million in 2022. The gross profit margin increased from 27.1% in 2021 to 27.5% in 2022, primarily because the Group increased the sales prices of some products such as certain major cooking wine, soy sauce and fermented bean curd products during the year.

## **Other Income and Gains**

Other income and gains increased by 205.4% from RMB6.8 million in 2021 to RMB20.7 million in 2022. Other income and gains primarily include subsidies received, bank interest income and foreign exchange gain, net. The increase in other income and gains was primarily due to the increase in subsidies received and the receipt of a one-off compensation income from a litigation against a supplier of our Group.

## **Selling and Distribution Expenses**

Selling and distribution expenses primarily consist of advertising expenses, marketing expenses, promotion expenses, travelling expenses, and remuneration of our sales employees.

Our selling and distribution expenses increased from RMB74.6 million in 2021 to RMB74.7 million in 2022, and the distribution expenses as a percentage of the Group's revenue decreased from 29.5% in 2021 to 27.5% in 2022, primarily due to a decrease in marketing expenses.

## **Administrative Expenses**

The administrative expenses decreased by 27.6% from RMB61.3 million in 2021 to RMB44.4 million in 2022. The decrease in administrative expenses was primarily due to a decrease in professional service fees for the Group's resumption of trading in 2022.

## **Finance Costs**

Finance costs increased by 50.4% from RMB135.6 million in 2021 to RMB203.9 million in 2022. The increase in finance costs primarily reflected the increase in interest expenses from RMB135.6 million in 2021 to RMB203.9 million in 2022, which was mainly attributable to the increase in average borrowing amount.

## **Loss before Income Tax**

Due to the aforesaid reasons, the loss before income tax increased by 52.7% from RMB318.4 million in 2021 to RMB486.3 million in 2022.

## **Income Tax Expense**

The corporate income tax of the Group in respect of its operations in China has been provided at the rate of 25% (2021: 25%) on the taxable profits, based on the existing laws, interpretations and practices in respect thereof.

Income tax expense was nil in 2021 and 2022, mainly due to loss arising from the business.

### Loss Attributable to Owners of the Company

Loss attributable to ordinary equity holders of the Company increased by 52.7% from RMB318.4 million in 2021 to RMB486.3 million in 2022, which was mainly attributable to the increase in net loss as a result of the aforesaid reasons.

### Loss per Share Attributable to Ordinary Equity Holders of the Company

Loss per share increased from RMB0.55 in 2021 to RMB0.84 in 2022. The increase in loss per share was attributable to the increase in loss attributable to ordinary equity holders of the Company.

### Net Loss Margin

Net loss margin increased by 42.1% from 126.0% in 2021 to 179.1% in 2022, which was primarily attributable to the combined effect of the aforesaid reasons.

## FINANCIAL AND LIQUIDITY POSITION

### Prepayments, deposits and other receivables

Details of the Group's prepayments, deposits and other receivables as at 31 December 2022 and 2021 are as follows:

|  | <b>2022</b><br><i>RMB'000</i> | 2021<br><i>RMB'000</i> |
|--|-------------------------------|------------------------|
| Prepayments for fixed assets   | <b>6,673</b>                  | 2,109                  |
| Prepayments for procurements of condiment products                         | <b>1,936</b>                  | 894                    |
| Other prepayments  | <b>2,417</b>                  | 3,185                  |
| Deposits and other receivables   | <b>26,618</b>                 | 20,355                 |
|  | <b>37,644</b>                 | 26,543                 |
| Less: Portion classify as non-current assets                               | <b>(6,673)</b>                | (6,126)                |
| Current portion included in prepayments,<br>deposits and other receivables | <b>30,971</b>                 | 20,417                 |

## **Trade receivables**

Trade receivables increased from RMB19.1 million as at 31 December 2021 to RMB20.5 million as at 31 December 2022 and the turnover days of trade receivables decreased from 35 days in 2021 to 32 days in 2022. The turnover days of trade receivables decreased slightly mainly because increasing numbers of our customers adopted prepayment transaction terms when placing their orders with us, and a lower proportion of our sales were conducted on credit terms. Details of the ageing analysis of trade receivables are set out in note 12 to the consolidated financial statements in this announcement.

In 2022, we classified our distributors into two categories, namely core distributors and non-core distributors, based on their scale, channels, capability and cooperativeness, local influence and other factors, and provided them with our resources in respect with terminal construction and market development for their orderly development and reasonable allocation, with an aim of molding all of them to be our core distributors.

## **Inventories**

As at 31 December 2022, the carrying amount of the Group's inventories amounted to RMB646.7 million (2021: RMB653.6 million), of which RMB534.7 million (2021: RMB586.0 million) were base wine.

Inventories decreased from RMB653.6 million as at 31 December 2021 to RMB646.7 million as at 31 December 2022, primarily due to the decrease in the production volume of base wine. A substantial part of our inventories are work in progress, mainly representing base wine, base soy sauce, semi-finished soybean paste and base vinegar in the brewing period. Due to the long production cycle and short sales cycle, we reserve certain amount of well-aged base wine to cope with the sales growth in the future.

We regularly monitor the inventory level maintained by our distributors. Our sales representatives maintain frequent telephone or email communications with our distributors to inquire about their monthly inventory reports, and pay regular visits to their warehouses. Our sales representatives conduct surveys on the inventory maintained by our distributors at least once a week on Saturday, which is reported to the Company weekly, and pay regular visits to the warehouses of distributors to ensure that they maintain optimal stock level and our products are sold to end consumers within the shelf life. We generally expect our distributors to maintain sufficient stock for 30 to 60 days of supply. In the event a distributor maintains stocks of more than 45 days of supply, the relevant sales representatives will assist such distributor in marketing and promotional activities and suggest orders with a smaller amount to be placed for the subsequent periods to minimize excess inventory.

As at 31 December 2022, our inventories with a carrying amount of RMB556.1 million (31 December 2021: RMB612.7 million) were pledged to secure other borrowings granted to the Group. For details please refer to note 11 to the consolidated financial statements.

## **Borrowings**

As at 31 December 2022, our total borrowings amounted to RMB2,211.6 million (31 December 2021: RMB1,760.4 million).

Our principal sources of liquidity include cash generated from business operation and other borrowings. The cash from these sources are primarily used for our working capital, the expansion of production capacity, other capital expenditures and debt service requirements.

## **Foreign currency risks**

The Group mainly operates in the PRC and its operations mainly settled in Renminbi. The Group will closely monitor the fluctuations of the Renminbi exchange rate and give prudent consideration as to entering into any currency swap arrangement as and when appropriate for hedging corresponding risks. For the year ended 31 December 2022, the Group had not engaged in hedging activities for managing foreign exchange rate risk.

## **Liquidity and Financial Resources**

As at 31 December 2022, we had cash and cash equivalents of RMB9.8 million (31 December 2021: RMB31.0 million). As at 31 December 2022, we had other borrowings of an aggregate amount of RMB2,211.6 million (31 December 2021: RMB1,760.4 million), which were denominated in RMB with interest rates from 4.8% to 24.0% per annum.

Our principal sources of liquidity include cash generated from business operation and other borrowings. We used cash from such sources for working capital, production facility expansions, other capital expenditures and debt repayment. We expect these uses will continue to be our principal uses of cash in the future, and that our cash flow will be sufficient to fund our ongoing business requirements. Meanwhile, we have decided to further broaden our financing channel to improve our capital structure.

## **GEARING RATIO**

The gearing ratio of the Group was 273.8% as at 31 December 2022, representing an increase of 23.9% over 2021.

The gearing ratio is based on net debt divided by total deficit plus net debt as at 31 December 2022. Net debt includes total debt net of cash and cash equivalents. Total debt includes trade payables, other payables and accruals, amounts due to related companies, amount due to ultimate holding company and interest-bearing other borrowings, provision for loss on unauthorised guarantees and other long term liabilities.

### **CAPITAL COMMITMENT**

Capital commitment as at 31 December 2022 amounted to RMB14.8 million (31 December 2021: RMB9.8 million), which was mainly related to equipment installation works in condiment workshop and research and development equipments.

### **CONTINGENT LIABILITIES**

As at 31 December 2022, the Group did not have other material contingent liabilities.

### **PLEDGE OF ASSETS**

As at 31 December 2022, our inventories with a carrying amount of RMB556.1 million, property, plant and equipment with a carrying amount of RMB211.7 million and leasehold land with a carrying amount of RMB48.3 million were pledged to secure general banking facilities granted to us.

Except as disclosed in this announcement, to the best knowledge and belief of the Directors, we have not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third party. It does not have any interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to it or engage in leasing or hedging or research and development or other service.

### **MATERIAL ACQUISITION AND DISPOSAL**

The Company has no material acquisition and disposal as at 31 December 2022.

### **SIGNIFICANT INVESTMENTS HELD**

Our Group did not hold any significant investments during the year ended 31 December 2022.



## FUTURE PROSPECTS

Looking forward to 2023, with the significant optimization and adjustment of the national policies on the prevention and control of the COVID-19 pandemic, consumer demand has changed and we are facing new challenges and opportunities. National Chinese traditional products with high price-performance ratio continue to be popular among consumers. Meanwhile, health, safety and flavor are still the essence of the innovation and development of condiment cooking wine industry.

The Group still insists on being consumer-oriented, never forgetting the original intention and sticking to quality and conveying the brand philosophy of “making dishes more delicious through cereal-based brewed and aged condiment (穀物釀、年份香、炒菜才更香)” through the products to consumers and generating resonance with them. Meanwhile, we make good use of our strengths to constantly innovate to meet consumers’ personalised, diversified and healthy demands and provide good-looking, high quality and safer, nutritious and health flavours to consumers.

In a new round of development opportunities of the Group’s condiment cooking wine industry, we strive to combine healthy ingredients into national flavor, combine new food technology into production and promote and develop the profound Chinese culinary culture. As a promoter of the cooking wine industry and knowledge adviser for consumers, we ultimately become the most trusted partner for consumers.

As for the cooking wine market, on one hand, the brewing standards of the cooking wine market have been further regulated with the introduction and implementation of the standards for brewing cooking wine. It has become a future development trend for “pure brewing” to replace the “prepared” and “blended” condiment products in the market. Considering that the growth in sales of brewed cooking wine can be achieved through guiding the consumers’ usage habits, the Group will strive to influence consumers from the aspects of raw materials, wine quality, years and brewing technology of its products, aiming at boosting the market share and sales price of the Group’s cooking wine products. On the other hand, with the food safety and environmental protection measures deepening, the Group, as a base wine leading player in the cooking wine industry, clearly enjoys more advantages in terms of technology, capital, market and risk resistance over other small and medium-sized enterprises in the market. The Group’s outstanding brand awareness, modernised traditional craftsmanship, mature quality control system and comprehensive product research and development system will provide the cooking wine products under “Lao Heng He (老恒和)” brand with more room for development.

In addition to maintaining the leading position of our cooking wine products in the sales of high-end products and grain-brewed products of the industry, we will endeavor to adhere to our strategy of “diversified” horizontal and vertical product structure so as to meet the diversified market demand for green, healthy and tasty condiment products. We will also keep expanding our production capacity and achieving automation upgrade to enhance our overall profitability. Leveraging on the product quality and technology of “Lao Heng He (老恒和)” brand as our core-competitiveness, we hope to stand out amid fierce market competition through differentiation in product quality.

Therefore, we believe that our “Lao Heng He (老恒和)” products will continue to grow in China.

## **GOALS AND STRATEGIES**

In 2023, China’s economic growth is expected to make prudent progression, with efforts being made to expand domestic demand, promote the smooth circulation of the industrial chain and supply chain, and gradually return to normal consumption. Our sales strategy remains consumer-centric to develop multi-type, multi-level and diversified products with high quality and low price to meet the needs of different consumers and obtain higher customer loyalty. We focus on providing safer and healthier naturally-brewed condiment products with premium quality to consumers.

At the 2023 Work Conference, the Group established the operating policy of “unifying thoughts , clarifying objectives, strengthening assessment and incentive assessment (統一思路、明確目標、強化考核、激勵考核)”, always focused on making decisions and suggestions on long-term goals, and achieved a balance among short-term, medium-term and long-term strategies through continuous and effective incentive measures. Under the guidance of the basic principle and operating policy of “focusing on the naturally-brewed cooking wine industry and refining other industries (聚焦天然釀造料酒產業，其他產業做精做細)”, the Group will quickly and steadily achieve its operating objectives, strive for higher operating performance, and lay a solid foundation for the future development of the Group’s business. Despite the challenging market, the Group is still looking forward to the future. The Group will continue to focus on the following areas to drive further growth of the Group’s business, thereby creating greater value for the Shareholders:

1. Through continuous product innovation and research and development, we seize the new opportunities arising from the expected steady growth of the economy, insist on the basic principle and management policy of “focusing on the naturally-brewed cooking wine industry and refining other industries (聚焦天然釀造料酒產業，其他產業做精做細)”, and attach great importance to improving product quality, optimising product portfolio and strengthening the market position of key products.

2. By expanding sales channels and consolidating the existing distribution network in the Yangtze River Delta region, we gradually develop products associated with it to conduct sales through e-commerce channels, and further explore new market channels such as BC channel and catering channel to increase penetration rate.
3. We renovate the existing factory area and upgrade the equipment to improve the production facilities, improve the production process and product quality, improve environmental protection benefits, step into green production, rationally utilize production capacity and improve production efficiency to meet the long-term development of the Group.
4. We refine the internal management process, strengthen the integration of various information software, and improve management efficiency; increase investment in talent cultivation and information technology to improve the level of enterprise digital management, improve the Group's operating efficiency and core competitiveness, and enhance the Group's sustainability. potential for continued development.
5. We further strengthen the Group's internal management and control efforts, establish a sound modern enterprise management system, and comprehensively improve the modernization level of management and control.

Our business objectives are to promote the sales of portfolio products and enhance the Company's market position in the condiment industry through our leading position in the cooking wine industry with the production model of "one wine with multiple products (一酒多品)" and expanding diversified sales channels. On the one hand, we will further increase investment in business team building and staff training. On the other hand, we will enrich the Company's product structure and launch more high-quality multi-category products that meet the consumption power of the public. For the distributors' expansion, we will continue to actively increase the market share of the brand of "Lao Heng He (老恒和)" in the PRC market by cooperating with competent distributors through diversified channels.

As a result of the new consumer habits brought about by the pandemic, we have also actively accelerated the development of new retail sales media, enriched our online offerings and formed a number of online channels that combine traditional e-commerce and emerging retail platforms, such as key account supermarket's online platform, community e-commerce platform, group buying membership e-commerce platform, etc. Each platform has achieved multi-dimensional full promotional coverage through Key Opinion Leader (KOL) live streaming, video clip, Kuaishou (快手), Tik Tok (抖音), Xiaohongshu (小紅書). In addition, we also strive to drive the linkage between social e-commerce and the community to create a community distribution model for all-staff shopping guides.

"Lao Heng He (老恒和)" strives to become a preferred choice of consumers.

## **MATERIAL EVENTS AFTER THE REPORTING PERIOD**

There are no material subsequent events undertaken by the Company or the Group after 31 December 2022. For other subsequent events, please refer to note 19 to the consolidated financial statements.

## **EMPLOYEES**

As at 31 December 2022, the Group had approximately 535 full-time employees (31 December 2021: 490). The employees' remuneration packages are determined with reference to their experience and qualifications and general market conditions. The remuneration policies, bonus, evaluation systems and training programs for employees of our Group were implemented continuously according to policies disclosed in the 2021 annual report and no change has been made in 2022.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2022.

## **DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022.

## **CLOSURE OF REGISTER OF MEMBERS FOR 2023 AGM**

For the purpose of determining the rights to attend and vote at the Company's forthcoming annual general meeting to be held on 5 June 2023 (the "2023 AGM"), the register of members of the Company will be closed from 31 May 2023 to 5 June 2023 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the 2023 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 30 May 2023.

## **SUFFICIENCY OF PUBLIC FLOAT**

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this announcement, the Company has maintained the public float as required by the Listing Rules.

## **CORPORATE GOVERNANCE**

The Board monitored the corporate governance practices of the Company throughout the year under review.

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company had complied with the code provisions set out in the Corporate Governance Code (the “**Governance Code**”) contained in Appendix 14 to the Listing Rules during the year ended 31 December 2022.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining and implementing a high standard of corporate governance practices.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuer” (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors of the Company and the Group’s senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company’s securities.

Upon specific enquiry, all Directors of the Company confirmed that they have complied with the Model Code during the year ended 31 December 2022. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the year ended 31 December 2022.

## **SCOPE OF WORK OF THE AUDITOR**

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group’s auditor, Grant Thornton Hong Kong Limited (the “**Auditor**”), to the amounts set out in the Company’s consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by the Auditor on the preliminary announcement.

## REVIEW BY THE AUDIT COMMITTEE

The Audit Committee (which comprises non-executive Director, namely Mr. Wu Hongping, and all independent non-executive Directors, namely Mr. Ng Wing Fai (Chairman), Mr. Sun Jiong and Mr. Shen Zhenchang) has reviewed the consolidated financial statements of the Group for the year ended 31 December 2022, including accounting principles and policies adopted by the Group, and discussed internal controls and financial reporting matters.

The Audit Committee has reviewed the remuneration and independence of the auditor of the Company, Grant Thornton Hong Kong Limited, and recommended that the Board re-appoint Grant Thornton Hong Kong Limited as the Company's auditor for 2023, which is subject to the approval of the shareholders of the Company at the 2023 AGM.

## AUDITOR'S OPINION

The Auditor has informed the Company that they will issue a qualified opinion in the Auditor's report on the consolidated financial statements of the Group for the financial year ended 31 December 2022. The basis of the Auditor's qualified opinion is extracted below:

“Our auditors’ report on the consolidated financial statements of the Group for the financial year ended 31 December 2021 (the “**Prior Year’s Consolidated Financial Statements**”) which form the basis for the corresponding figures presented in the current year’s consolidated financial statements, as we were unable to obtain sufficient and appropriate audit evidence to satisfy ourselves as to the accuracy on the cost of sales charged for the year ended 31 December 2021, which have a consequential effect on the Group’s results and cash flows for the year ended 31 December 2021. Details of this matter that led to our qualified opinion on the Prior Year’s Consolidated Financial Statements are set out in our auditor’s report dated 28 September 2022 contained in the annual report of the Company for the year ended 31 December 2021. Because of the possible effects of this matter on the comparability of the current year’s figures and the corresponding figures, our opinion on the current year’s consolidated financial statements for the year ended 31 December 2022 is therefore qualified.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.”

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This results announcement is published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.hzlaohenghe.com](http://www.hzlaohenghe.com). The 2022 annual report of the Company will be dispatched to the shareholders of the Company and published on the above-mentioned websites on or before 30 April 2023.

## **APPRECIATION**

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board  
**Honworld Group Limited**  
**Chen Wei**  
*Chairman*

Hong Kong, 30 March 2023

*As at the date of this announcement, the executive Directors of the Company are Chen Wei and Liu Jianbin; the non-executive Director of the Company is Wu Hongping; and the independent non-executive Directors of the Company are Shen Zhenchang, Ng Wing Fai and Sun Jiong.*