

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2018**

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2018 amounted to RMB874.4 million, representing an increase of 8.9% from RMB803.1 million recorded in 2017.
- Gross profit for the year ended 31 December 2018 amounted to RMB457.0 million, representing an increase of 6.4% from RMB429.5 million recorded in 2017.
- Profit attributable to ordinary equity holders of the parent for the year ended 31 December 2018 amounted to RMB201.7 million, representing an increase of 8.0% from RMB186.8 million recorded in 2017.
- The Board has recommended the payment of a final dividend of RMB7.0 cents per ordinary share for 2018.

* 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 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	<i>Notes</i>	2018 RMB'000	2017 <i>RMB'000</i>
REVENUE	4	874,410	803,141
Cost of sales		(417,448)	(373,615)
Gross profit		456,962	429,526
Other income and gains	4	11,652	19,755
Selling and distribution expenses		(102,610)	(110,985)
Administrative expenses		(74,747)	(71,906)
Impairment losses on financial assets		(682)	–
Other expenses		(4,523)	(1,465)
Finance costs	6	(50,427)	(48,840)
PROFIT BEFORE TAX	5	235,625	216,085
Income tax expense	7	(33,919)	(29,310)
PROFIT FOR THE YEAR		201,706	186,775
Attributable to:			
Owners of the parent		201,706	186,775
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted		RMB34.9 cents	RMB32.3 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*Year ended 31 December 2018*

	2018 RMB'000	2017 <i>RMB'000</i>
PROFIT FOR THE YEAR	<u>201,706</u>	<u>186,775</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	<u>6,004</u>	<u>(13,275)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<u>6,004</u>	<u>(13,275)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>207,710</u></u>	<u><u>173,500</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	<i>Notes</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,010,516	938,404
Prepaid land lease payments		51,973	53,249
Other intangible assets		414	414
Prepayments, other receivables and other assets		415,746	390,744
Deferred tax assets		3,905	2,254
Total non-current assets		1,482,554	1,385,065
CURRENT ASSETS			
Inventories	<i>10</i>	1,276,502	1,189,931
Trade receivables	<i>11</i>	194,659	129,547
Prepayments, other receivables and other assets		342,909	191,271
Pledged deposits		69,659	76,047
Cash and cash equivalents		345,188	443,893
Total current assets		2,228,917	2,030,689
CURRENT LIABILITIES			
Trade payables	<i>12</i>	113,326	153,539
Other payables and accruals		147,743	85,628
Interest-bearing bank and other borrowings		932,762	892,555
Tax payable		51,977	28,168
Total current liabilities		1,245,808	1,159,890
NET CURRENT ASSETS			
NET CURRENT ASSETS		983,109	870,799
TOTAL ASSETS LESS CURRENT LIABILITIES			
TOTAL ASSETS LESS CURRENT LIABILITIES		2,465,663	2,255,864

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	97,962	62,254
Other long term liabilities	137,046	137,179
Deferred tax liabilities	26,725	22,592
Total non-current liabilities	261,733	222,025
Net assets	2,203,930	2,033,839
EQUITY		
Equity attributable to owners of the parent		
Share capital	1,767	1,767
Reserves	2,202,163	2,032,072
Total equity	2,203,930	2,033,839

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.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively known as 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**”).

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Key Shine Global Holdings Limited, which was incorporated in the British Virgin Islands (“**BVI**”).

On 16 January 2014, the Company issued the prospectus and launched a public offering of 125,000,000 shares at an offer price of HK\$7.15 per share. The Company's shares were listed on the Stock Exchange of Hong Kong Limited (the “**SEHK**”) on 28 January 2014 (the “**Listing**”).

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) (which include all International Financial Reporting Standards, International Accounting Standards (“**IASs**”) and Interpretations) issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised standards for the first time for the current year's financial statements.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements</i> <i>2014–2016 Cycle</i>	Amendments to IFRS 1 and IAS 28

Other than as explained below regarding the impact of IFRS 9 and IFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

IFRS 9

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which was not relevant to the preparation of the Group's financial statements, the Group has applied the transitional provisions set out in IFRS 9 without restating comparative information. It applied the classification and measurement requirements (including impairment) to financial instruments that were not derecognised as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS39.

Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as at 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group. The Group has not designated any financial assets and financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial assets and financial liabilities.

Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record a loss allowance for the expected credit losses of its financial assets not held at fair value through profit or loss. In that respect, the Group has measured the expected credit losses of its trade receivables on a lifetime basis as permitted by the simplified approach.

The adoption of IFRS 9 has had no material impact on the impairment provisions on the Group's financial assets.

IFRS 15

IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 4 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15, if any, was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

The Group has concluded that revenue from sale of its products should be recognised at the point in time when control of the assets is transferred to the customer, generally on receipts of these products. Therefore, the adoption of IFRS 15 has had no impact on the timing of revenue recognition. The impact on the amount of revenue to be recognised was further explained below.

Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as other payables. Under IFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB17,085,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	<i>Definition of a Business</i> ²
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
IFRS 16	<i>Leases</i> ¹
IFRS 17	<i>Insurance Contracts</i> ³
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ²
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> ¹
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, except IFRS 16 *Leases*, the Group considers that these new and revised IFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group's results of operations and financial position.

Further information about IFRS 16 that is expected to be applicable to the Group is described below:

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining

lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at its carrying amount as if IFRS 16 had always been applied since the commencement date, but using a discount rate based on the lessee's incremental borrowing rate at the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB2,930,000 and lease liabilities of RMB3,237,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

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 sales 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.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 RMB'000	2017 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Sale of goods	<u>874,410</u>	<u>803,141</u>
Revenue from contracts with customers		
<i>(i) Disaggregated revenue information</i>		
For the year ended 31 December 2018		
		2018 RMB'000
Type of goods		
Condiment products		<u>874,410</u>
Timing of revenue recognition		
Goods transferred at a point in time		<u>874,410</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:

2018
RMB'000

Revenue recognised that was included in contract liabilities at the beginning of the reporting period:

Sale of goods	17,085
---------------	---------------

(ii) Performance obligations

Information about the Group's performance obligations 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. Some contracts provide customers with a right of return which give rises to variable consideration subject to constraint.

Other income and gains

	2018 RMB'000	2017 RMB'000
Subsidies received*	9,315	10,222
Interest income	2,092	2,212
Foreign exchange gain, net	–	7,235
Others	245	86
	11,652	19,755

* The amount represented subsidies received from the relevant authorities in the PRC without any unfulfilled conditions imposed on the Group.

5. PROFIT BEFORE TAX

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

	<i>Note</i>	2018 RMB'000	2017 <i>RMB'000</i>
Costs of inventories sold		417,448	373,615
Depreciation		41,473	38,208
Amortisation of prepaid land lease payments		1,276	1,284
Minimum lease payments under operating leases regarding plant and machinery		2,523	2,358
Auditor's remuneration		2,173	1,958
Employee benefit expenses (excluding directors' remuneration):			
— Wages and salaries		43,355	42,995
— Pension scheme contributions		8,471	7,848
		51,826	50,843
Research and development costs		41,106	39,874
Donations		167	67
Foreign exchange loss/(gain), net		2,818	(7,235)
Impairment losses on financial assets			
— impairment of trade receivable	<i>11</i>	682	—

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 <i>RMB'000</i>
Interest on bank loans	45,674	46,063
Interest on finance leases	4,753	2,777
	50,427	48,840

7. 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% (2017: 25%) on the taxable profits, based on the existing legislation, interpretations and practices in respect thereof.

Pursuant to the approval from the National Office of Leading Group for Administration of Hi-tech Enterprise Recognition, Huzhou Laohenghe Brewery Co., Limited and Huzhou Laohenghe Wine Co., Limited, both being wholly-owned subsidiaries of the Company, were granted the “New and Advanced Technology Enterprise” status and are entitled to the preferential tax rate of 15% for the three consecutive years commencing from 2016.

	2018 RMB'000	2017 <i>RMB'000</i>
Current — PRC		
Charge for the year	31,437	25,080
Deferred	2,482	4,230
Total tax charge for the year	33,919	29,310

A reconciliation of the income tax expense applicable to profit before 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:

	2018 RMB'000	%	2017 <i>RMB'000</i>	%
Profit before tax	235,625		216,085	
Tax at the statutory tax rate	58,906	25.0	54,021	25.0
Lower tax rate enacted by the local authority	(23,816)	(10.1)	(22,134)	(10.2)
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	4,133	1.7	3,818	1.8
Tax incentive on eligible expenditures	(6,162)	(2.6)	(6,895)	(3.2)
Expenses not deductible for tax	858	0.4	500	0.2
Tax charge at the Group's effective rate	33,919	14.4	29,310	13.6

8. DIVIDENDS

	2018 RMB'000	2017 <i>RMB'000</i>
Proposed final — RMB7.0 cents (2017: RMB6.5 cents) per ordinary share	40,513	37,619

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The 2017 proposed final dividend of RMB37,619,000 was approved by the Company's shareholders at the annual general meeting on 31 May 2018 and was subsequently distributed in July 2018.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 578,750,000 (2017: 578,750,000) in issue during the year.

	2018	2017
Profit attributable to ordinary equity holders of the parent (<i>RMB'000</i>)	201,706	186,775
Weighted average number of ordinary shares in issue (<i>in thousands</i>)	578,750	578,750
Earnings per share attributable to ordinary equity holders of the parent — Basic and diluted (<i>RMB</i>)	<u>34.9 cents</u>	<u>32.3 cents</u>

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during those years.

10. INVENTORIES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Raw materials	12,113	14,079
Work in progress	1,225,093	1,142,158
Finished goods	39,296	33,694
	<u>1,276,502</u>	<u>1,189,931</u>

11. TRADE RECEIVABLES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade receivables	195,341	129,547
Impairment	(682)	—
Trade receivables	<u>194,659</u>	<u>129,547</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:

	2018 RMB'000	2017 <i>RMB'000</i>
Within 3 months	187,215	112,484
3 to 6 months	2,870	16,279
6 months to 1 year	3,511	617
Over 1 year	1,063	167
	194,659	129,547

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

	2018 RMB'000	2017 <i>RMB'000</i>
At beginning of year	–	–
Impairment losses (<i>note 5</i>)	(682)	–
At end of year	(682)	–

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The Group classify its customers into categories A (the highest), B, C and D based on their business scale and capabilities. The provision rates are based on days past due of the Group's customers with similar loss patterns, among which the customers classified as categories A, B & C were merged into the same group for impairment assessment as their credit terms and loss patterns were similar. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

Customers classified as Category A, B and C

	Current	Less than 1 year	Past due 1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.0%	0.0%	2.4%	–	0.0%
Gross carrying amount (<i>RMB'000</i>)	148,474	17,151	616	–	166,241
Expected credit losses (<i>RMB'000</i>)	–	–	15	–	15

Customers classified as Category D

	Current	Less than 1 year	Past due 1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.0%	9.7%	35.3%	100%	2.3%
Gross carrying amount (<i>RMB'000</i>)	24,141	4,371	532	56	29,100
Expected credit losses (<i>RMB'000</i>)	–	423	188	56	667

Total

	Current	Less than 1 year	Past due 1 to 2 years	Over 2 years	Total
Gross carrying amount (RMB'000)	172,615	21,522	1,148	56	195,341
Expected credit losses (RMB'000)	–	423	203	56	682

Impairment under IAS 39 for the year ended 31 December 2017

An ageing analysis of the trade receivables as at 31 December 2017, based on the credit terms, that were neither individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	112,484
Less than 3 months past due	16,279
3 to 6 months	207
6 months to 1 year	419
Over 1 year	158
	<u>129,547</u>

The trade receivables that were neither past due nor impaired related to a number of diversified customers for whom there was no recent history of default.

The trade receivables that were past due but not impaired related to a number of customers that had a good track record with the Group. Based on past experience, the directors were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group did not hold any collateral or other credit enhancements over these balances.

12. 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:

	2018 RMB'000	2017 RMB'000
Within 3 months	77,248	72,567
3 to 6 months	20,661	56,730
Over 6 months	15,417	24,242
	<u>113,326</u>	<u>153,539</u>

Trade payables of the Group are non-interest-bearing and are normally settled on terms of one to six months. The carrying amounts of the trade payables approximate to their fair values.

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 and fermented bean curd. In 2018, we attained the following achievements:

1. “Lao Heng He” was recognized as a well-known trademark in China by the Trademark Office of the State Administration for Industry and Commerce;
2. We applied for the provincial-level key research institutes in the second half of 2018 and was granted the notice and approval from the Zhejiang Province's Department of Science and Technology. Meanwhile, our technical innovation team was selected as the “Elite Project” (精英計劃) in Nantaihu, Huzhou;
3. We hosted the “Hesong” 2018 China Condiment Industry First Cooking Wine (Taihu) Summit* (「和頌」二零一八中國調味品行業首屆料酒(太湖)峰會) and released our new soy sauce product, “Brewed-twice Soy Sauce”;
4. We were assessed by the District Committee of Wuxing District and the People's Government of Wuxing District as the “2018 Scientific and Technological Innovation Advanced Enterprise” (二零一八年度科技創新先進企業) and our new production base was graded as the first batch of municipal-level green factories in Huzhou City by Huzhou's Committee of Economic and Information Technology;
5. In 2018, we applied for the project named “Research on the Control of Rancid Microorganisms in rice wine tanks and the Research on Flavor Enhancement Technology” jointly with Jiangnan University and won the Science and Technology Advancement Award of China Alcoholic Drinks Association;
6. The formulation of the association standards for brewing of cereal based cooking wine.

We have been taking proactive action to involve in and is committed to promoting the formulation of the standards for cooking wine, aiming to play the role as a leading wine company and lead the product upgrade of the entire cooking wine industry. The standards for cooking wine aims to enable consumers to distinguish “brewed cooking wines” from “integrated cooking wines” to differentiate our high-quality brewed cooking wine products from integrated cooking wine produced by other competitors, so that the chaos of the current cooking wine market can be rationalized. Therefore, we expect that the highly fragmented cooking wine market will offer us with a broader room for market integration after the introduction of the standards for cooking wine, which will be an important driving force for our future performance improvement. Having taking into account the extensive reserve of base wine, our leading status in the cooking wine industry is free from challenge in a short period of time.

* For identification purposes only

Since the setup of distribution channels, catering channels and e-commerce channels (the New Sales Channels) in 2016, our New Sales Channel build up progress has reached an important milestone and successfully covered 30 provinces, autonomous regions and municipalities across the country with 1,297 customers in total. The Group's sales from distribution channels and catering channels increased from RMB359.9 million in 2017 to RMB411.7 million in 2018, representing an increase of 14.4%. The sales from the e-commerce channel increased by 12.6% from RMB10.3 million in 2017 to RMB11.6 million in 2018.

In 2018, given the maturity of our New Sales Channel, the Group's marketing resources are more evenly allocated between New Sales Channels and supermarket channels. Meanwhile, the synergy brought by New Sales Channels and the existing supermarket channels emerged in the year, and therefore the downward trend of the supermarket channels can be effectly alleviated. The sales from supermarket channels increased by 4.2% from RMB432.9 million in 2017 to RMB451.1 million in 2018.

For the above reasons, the Group recorded a revenue of approximately RMB874.4 million (2017: RMB803.1 million) for the year ended 31 December 2018, representing an increase by approximately 8.9% as compared to the revenue in 2017. The profit for the year attributable to ordinary equity holders of the parent was approximately RMB201.7 million (2017: RMB186.8 million), representing an increase by approximately 8.0% as compared to that in 2017. Along with the maturity of the New Sales Channels, we have reduced the expenditure in advertising costs, and recorded growth in revenue and profits.

In 2018, we launched certain new products, such as 1.28L Lao Heng He Naturally-brewed Wine, 1.9L Lao Heng He Handmade Cooking Wine, 500ML Lao Heng He Brewed-twice Soy Sauce and 410ML Lao Heng He Seasoned Soy Sauce, which were well patronized by our consumers with excellent sales.

In 2018, our key products, cooking wine, remained a major source of our revenue, representing 69.6% of the total revenue. As our production capacity of soy sauce continued to increase, our sales revenue from soy sauce increased by 45.7% in 2018 compared with that in 2017 and accounted for 17.1% of our total revenue. In view of our customers' growing demand from the New Sales Channels and the anticipated sales growth of soy sauce, rice vinegar, fermented bean curd brought along by the further development of the New Sales Channels, we consider that a rich and diversified condiment portfolio would be more beneficial to the business development of the Group in the coming years. Thus, we will enhance the production capacity of soy sauce, rice vinegar, fermented bean curd and other products, so as to diversify the existing portfolio of condiment products of the Group. We believe that cooking wine products are complementary with other products in terms of resource usage, such that we will be able to develop an in-depth industry chain for the Group's condiment products at multiple levels, thereby turning Lao Heng He into a diversified condiment manufacturer with cooking wine as a dominant product.

Our construction project for the major buildings in the new plant in Huzhou, Zhejiang Province has been completed and received final acceptance. New production line of soy sauce and fermented bean curds was installed and the plant now entered into the trial production stage and was expected to launch products in the second half of 2019.

Our profitability mainly depends on the product price, our cost of sales, marketing strategies, product structure and product mix. We are now taking proactive action in monitoring any potential risks that may affect our financial performance with the attempt to mitigate any increase in costs and expenses with a better product mix and employment of different sales channels together with enhanced operation efficiency and profit margins. However, the Group also faces some risks in its business development, including: (1) the risk of a substantial increase in production costs, such as the increase in prices of agricultural and by-products, packaging costs or labor costs; (2) the change in consumers' consuming patterns on condiment products that may pose adverse impact to our sales; (3) the market's expansion costs and sales expenses are significantly higher than the Group's expectations; (4) our new products may not be well received by the market within a short period of time; and (5) more complicated sales policies and management over credit terms due to the rapid growth in the number of distributors.

Financial Review

Overview

The key financial indicators of the Group are as follows:

	Year ended 31 December		Year-on-year
	2018	2017	Change
	RMB'000	RMB'000	%
Income statement items			
Sales	874,410	803,141	8.9%
Gross profit	456,962	429,526	6.4%
Profit attributable to owners of the parent	201,706	186,775	8.0%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	328,801	304,417	8.0%
Earnings per share (RMB cents) (<i>Note (a)</i>)	34.9	32.3	8.0%
Selected financial ratios			
Gross profit margin (%)	52.3%	53.5%	(2.2%)
Net profit margin attributable to ordinary equity holders of the parent (%)	23.1%	23.3%	(0.9%)
EBITDA margin (%)	37.6%	37.9%	(0.8%)
Return on equity holders' equity (%)	9.2%	9.2%	—
Gearing ratio (<i>Note (b)</i>)	33.0%	30.4%	8.6%

Notes:

- (a) Please refer to Note 9 to the consolidated financial statements of this announcement for the calculation of earnings per share.
- (b) The gearing ratio is based on net debt divided by total equity and net debt as at 31 December 2018. Net debt includes total debt net of cash and cash equivalents. Total debt includes trade payables, other payables and accruals, interest-bearing bank and other borrowings and other long term liabilities.

Revenue

The revenue of the Group increased by 8.9% from RMB803.1 million in 2017 to RMB874.4 million in 2018, primarily attributable to the development of New Sales Channels and the growth of the supermarket channel brought by the synergy effect from diversified sales channels.

Revenue from cooking wine products increased by 4.9% from RMB580.2 million in 2017 to RMB608.8 million in 2018, primarily due to the increase in the sales of low-end and mid-range cooking wine products arising from the Group's persistently increasing the market penetrating of distribution channels.

Revenue from the Group's soy sauce products increased by 45.7%, from RMB102.6 million in 2017 to RMB149.5 million in 2018. This mainly reflects our effort in devoting more marketing resources to soy sauce products and additional sales brought forth by new product "Brewed-twice Soy Sauce".

While introducing new products to the market, we have also adjusted our product portfolio by reducing the production volume of low-performing rice vinegar products and other products this year. As a result, the revenue from the Group's rice vinegar products and other products decreased slightly from RMB74.7 million and RMB45.6 million in 2017 to RMB73.3 million and RMB42.8 million in 2018, respectively.

Cost of Sales

Our cost of sales increased by 11.7% from RMB373.6 million in 2017 to RMB417.4 million in 2018. The increase in cost of sales was primarily attributable to the combined effect of growing revenue and rising prices for packaging materials.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 6.4% from RMB429.5 million in 2017 to RMB457.0 million in 2018. The gross profit margin decreased from 53.5% in 2017 to 52.3% in 2018, primarily due to the combined effect of rising prices for packaging materials and a decline in the proportion of sales from high-end products.

Other Income and Gains

Other income and gains decreased by 40.9% from RMB19.8 million in 2017 to RMB11.7 million in 2018. Other income and gains primarily include subsidies received, gains from sales of materials, interest income and foreign exchange gains. The decrease in other income and gains was primarily due to decrease in foreign exchange gain brought by the fluctuation in exchange rate.

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 decreased from RMB111.0 million in 2017 to RMB102.6 million in 2018, and the distribution expenses as a percentage of the Group's revenue decreased from 13.8% in 2017 to 11.7% in 2018, primarily as a result of the combined effect from the following two factors: (i) advertising expenses related to channel building were reduced due to the maturity of our New Sales Channels; and (ii) the Group had devoted more marketing resources to the supermarket channels.

Administrative Expenses

The administrative expenses increased by 4.0% from RMB71.9 million in 2017 to RMB74.7 million in 2018. The increase in administrative expenses was due to the increase in research and development expenses to improve the quality of our products.

Finance Costs

Finance costs increased by 3.2% from RMB48.8 million in 2017 to RMB50.4 million in 2018. The increase in finance costs primarily reflected the increase in interest expenses from RMB48.8 million in 2017 to RMB50.4 million in 2018 as a result of an increase in the average balance of our bank and other borrowings in 2018 to support the expansion of our business.

Profit before Tax

Due to the aforesaid reasons, the profit before tax increased by 9.0% from RMB216.1 million in 2017 to RMB235.6 million in 2018.

Income Tax Expense

The corporate income tax of the Group in respect of its operations in Mainland China has been provided at the rate of 25% (2017: 25%) on the taxable profits, based on the existing laws, interpretations and practices in respect thereof.

Pursuant to the approval from the National Office of Leading Group for Administration of Hi-tech Enterprise Recognition, Huzhou Laohenghe Brewery Co., Limited (湖州老恒和釀造有限公司) and Huzhou Laohenghe Wine Co., Limited (湖州老恒和酒業有限公司), both being wholly-owned subsidiaries of the Company, were granted the “New and Advanced Technology Enterprise” status and were entitled to the preferential tax rate of 15% for three consecutive years commencing from 2016, remained stable as compared to that of 2017 (2017: 15%).

Income tax expense increased by 15.7% from RMB29.3 million in 2017 to RMB33.9 million in 2018, mainly due to the increase in profit before tax.

Profit Attributable to Owners of the Parent

Profit attributable to ordinary equity holders of the parent increased by 8.0% from RMB186.8 million in 2017 to RMB201.7 million in 2018, which is mainly attributable to the aforesaid reasons.

Earnings per Share Attributable to Ordinary Equity Holders of the Parent

Basic earnings per share increased from RMB32.3 cents in 2017 to RMB34.9 cents in 2018. Increase in earnings per share was attributable to the increase in profit attributable to ordinary equity holders of the parent.

Net Profit Margin

The net profit margin remained stable in 2018 as compared to that in 2017.

FINANCIAL AND LIQUIDITY POSITION

Prepayments

Details of the Group’s prepayments as at 31 December 2018 and 2017 are as follows:

	<i>Notes</i>	2018 RMB’000	2017 RMB’000
Prepayments for non-current assets	(i)	415,746	390,744
Prepayments for procurements of condiment products	(ii)	100,000	–
Prepayments for procurements of raw materials	(iii)	83,220	42,021
Other prepayments		4,394	7,664
		603,360	440,429

Notes:

- (i) Prepayments for non-current assets primarily included the following two aspects: (1) prepayments to equipment manufacturers in respect of customised equipment for the Group; and (2) prepayments to major contractors of the projects according to the framework construction contracts. The directors estimated that RMB118,237,000 and RMB297,509,000 of the prepayments for non-current assets would be settled in a period of 12 months and 24 months upon commencement of the corresponding construction/installation projects, respectively. Prepayments for non-current assets increased by 6.4% from RMB390.7 million as at 31 December 2017 to RMB415.7 million as at 31 December 2018. The increase in prepayments for non-current assets was mainly attributable to the fact that we will increase the payment to related construction units and equipment suppliers as we plan to expand the production capacity of soy sauce and fermented bean curd products and enriches the product structure in the future.
- (ii) Prepayments for procurements of condiment products primarily included prepayments for procurements of condiment products from an independent third party manufacturer under a poverty alleviation program led by China Development Bank Zhejiang Branch. RMB63,590,000 and RMB36,410,000 of prepayments for procurements of condiment products would be settled in a period of 12 months and 24 months according to the procurement schedule between the manufacturer and the Group, respectively.
- (iii) Prepayments for procurements of raw material primarily included the prepayments for procurements of raw materials from independent third party suppliers to ensure the steady supplies of agriculture products, which would be settled in a period of 12 months according to the procurement schedules between the suppliers and the Group. Prepayments for procurements of raw materials increased by 98.0% from RMB42.0 million as at 31 December 2017 to RMB83.2 million as at 31 December 2018, which was primarily due to the addition in prepayments to suppliers of soy beans to cope with the future production needs of our new plant in Huzhou.

Trade receivables

Trade receivables increased from RMB129.5 million as at 31 December 2017 to RMB194.7 million as at 31 December 2018 and the turnover days of trade receivables increased from 65 days in 2017 to 67 days in 2018, mainly reflecting the increase in the proportion of sales to supermarket channel with longer credit period. Details of the ageing analysis of trade receivables are set out in Note 11 to the consolidated financial statements in this announcement.

We have implemented a multi-category distributor system to manage distribution of its products since 2011. We classify our distributors into Categories A (the highest), B, C and D based on their distribution scale and capabilities.

Inventories

Inventories increased from RMB1,189.9 million as at 31 December 2017 to RMB1,276.5 million as at 31 December 2018, primarily due to the increase in work in progress. 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 need to keep an abundant stock of well-aged base wine to cope with the rapid sales growth in the future. As at 31 December 2018, we increased the inventories of base soy sauce to cope with the future growth in sales.

We regularly monitor the inventory level maintained by our distributors. Our sales representatives maintain frequent telephone or email communications with each of our Categories A, B, C and D distributors, review their monthly inventory reports and visit their warehouses on a regular basis. Our sales representatives visit the warehouses of our Category A and B distributors at least on a weekly basis and those of Category C and D distributors on a monthly basis to ensure that they keep optimal stock level and our products are sold to end customers within the shelf life. We generally expect our distributors to maintain sufficient stock for 5 to 20 days of supply. In the event a distributor maintains stocks of more than 20 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 2018, our inventories with a carrying amount of RMB703.4 million (31 December 2017: RMB803.5 million) were pledged as floating charge to secure general banking facilities granted to us.

Borrowings

As at 31 December 2018, our total borrowings amounted to RMB1,030.7 million (31 December 2017: RMB954.8 million), including finance lease payables with a carrying amount of RMB62.6 million (31 December 2017: RMB102.0 million).

Our principal sources of liquidity include cash generated from business operation and bank 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.

As at 31 December 2018, the Group's bank loans amounting to approximately RMB660.9 million were not in compliance with certain financial loan covenants, among which a balance of RMB88.0 million that is repayable after one year from the end of 2018 has been classified as a current liability. No further reclassification is needed regarding the rest of the aforesaid bank loans since their maturity were all within 12 months and have already been classified as current liabilities.

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 2018, the Group was not engaged in hedging activities for managing foreign exchange rate risk.

Liquidity and Financial Resources

As at 31 December 2018, we had cash and cash equivalents of RMB345.2 million (31 December 2017: RMB443.9 million). As at 31 December 2018, we had interest-bearing bank and other borrowings of an aggregate amount of RMB1,030.7 million (31 December 2017: RMB954.8 million), which were denominated in RMB with interest rates from 3.92% to 6.09% per annum.

Our principal sources of liquidity include cash generated from business operation, bank borrowings 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 33.0% as at 31 December 2018, representing an increase of 2.6 percentage points over 2017.

The gearing ratio is based on net debt divided by total equity and net debt as at 31 December 2018. Net debt includes total debt net of cash and cash equivalents. Total debt includes trade payables, other payables and accruals, interest-bearing bank and other borrowings and other long term liabilities.

CAPITAL COMMITMENT

Capital commitment as at 31 December 2018 amounted to RMB133.3 million (31 December 2017: RMB103.6 million), which was mainly related to the construction projects for expansion of plant and increase of machinery.

CONTINGENT LIABILITIES

As at 31 December 2018, we did not have any material contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2018, our inventories with a carrying amount of RMB703.4 million, property, plant and equipment with a carrying amount of RMB257.2 million, leasehold land with a carrying amount of RMB53.2 million, and deposits with a carrying amount of RMB69.7 million were pledged to secure general banking facilities granted to us.

Except as disclosed in this announcement, 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 2018.

FUTURE PROSPECTS

Although the trade war and de-leveraging policies gave tremendous impact to China's economy, we believe that the demand for condiments, as a kind of inelastic demands, will not be affected. On the other hand, China's economy has been shifting from high-speed development stage to a more quality-oriented one; the optimization of economic structure is underway. The scenario of the condiment industry, a highly fragmented market with the development levels of industry players varied from each other will be changed.

As for the cooking wine market, we believe that the benefit from demographic structure as well as the growing knowledge of consumers' using habits will lead to an increase in the sales of our products. Apart from that, there is an increase in price of cooking wine market brought by the introduction of the standards of cooking wine brewing, the further regulation over the cooking wine market, the replacement of existing integrated and inferior wine products with naturally brewing ones, our influence on the consumers from the aspects of raw materials, aging and quality. Cooking wine market has evolved into a stage of rapid surge in both sale volume and prices.

With the maturity of our New Sales Channels and the requirements of diversified customers' needs, the Group constantly enriches its existing product portfolio to meet the market needs in the future. In 2018, the Group launched new products such as Brewed-twice Soy Sauce and Seasoned Soy Sauce, which contributed a growth by 45.7% in the annual sales of soy sauce. Given the increased production capacity of the new plant and customer's recognition of soy sauce products, we envisaged that the Group's soy sauce products will capture a larger market share.

Under such general trend, our "Lao Heng He" products with outstanding brand awareness, modernized traditional craftsmanship, mature quality control mechanism and outstanding research and development system may strike for greater development. Leveraging on our product quality and technology as our core-competitiveness, we will stand out amid fierce market competition through differentiation in product quality.

In addition to maintaining the leading position of our cooking wine products, we will endeavor to adhere to our strategy of "Diversified" product structure so as to meet the diversified market demand for green, healthy and tasty condiment products. Furthermore, we will also keep expanding our production capacity, expecting to enhance our overall profitability through economy of scale.

As a result of the foregoing, we believe products of our "Lao Heng He" brand will continue to expand in China.

GOALS AND STRATEGIES

In 2019, we will continue to pursue the "Diversified" strategy, concentrating our investment and resources on exploring sales channels and product offerings. We will adhere to a consumer-oriented sales strategy and endeavor to achieve higher customer loyalty. We focus on providing consumers with safer and healthier naturally-brewed condiment products of premium quality.

We are determined to consolidate our position in the condiments industry by diversifying our sales channels and promoting the sales of combined products, leveraging on our leading position in the cooking wine industry. On one hand, we will further increase the investment in the establishment of the marketing team and staff training. On the other hand, we will enrich the product structure of the Company and offer a variety of quality products that are in line with the consuming power of the general public. In respect of the expansion of distributors, we will continue to cooperate with capable distributors through our diversified channels, and continue to actively improve the market share of our “Lao Heng He” brand in the PRC market.

In addition, we also take proactive approach in building up our internet sale platform and embrace New Sales Channel. To name a few, we have opened up lives with internet celebrities, internet lives of Lunar New Year Taobao shopping and create more interactive marketing approach to familiarize more younger consumers to our time-honored brand with the attempt to bring forth a renewed image for our brand. We would also cooperate with local educational institutions to familiarize children to the natural brewing of condiments.

We will always pay close attention to and actively address any risks that may come along with growth in sales. In 2018, we upgraded the digitalized management system and launch a more comprehensive ERP system to cope with the more complicated management brought by our fast expansion. Apart from that, we will continue to provide more comprehensive and systematic training to our expanding sales team in respond to the possible negative impact on the sales of our Group’s products brought about by the deficiency of our sales teams. We will keep improving our credit risk management system in respond to the complexity of sales policies and credit terms management as a result of the increasing number of distributors. We will also continue to build an information sharing platform to strengthen internal communications in respond to the negative impact on our sales and our distributors, which maybe caused by the difference in pricing policy in different locations that leads to cross-sales of products to other exclusively-authorized distribution areas.

“Lao Heng He” strives to become the preferred choice of consumers.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Company or by the Group after 31 December 2018.

EMPLOYEES

As at 31 December 2018, we had 605 full-time employees (31 December 2017: 606). The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits, liabilities for breaches and grounds for termination. Remuneration of the Group’s employees includes basic salaries, allowances, bonus and other employee benefits and are determined with reference to their experiences, qualifications, competence and general market conditions.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Group as at 31 December 2018 (31 December 2017: nil).

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 2018.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB7.0 cents per ordinary share for the year ended 31 December 2018 to the shareholders whose names appear on the register of members of the Company on 14 June 2019 (the **"Proposed Final Dividend"**). Subject to the approval of the Company's shareholders at the Company's forthcoming annual general meeting to be held on 31 May 2019 (the **"2019 AGM"**), the Proposed Final Dividend is expected to be paid on or about 5 July 2019.

CLOSURE OF REGISTER OF MEMBERS FOR 2019 AGM

For the purpose of determining the rights to attend and vote at the 2019 AGM, the register of members of the Company will be closed from 28 May 2019 to 31 May 2019 (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 2019 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 27 May 2019.

CLOSURE OF REGISTER OF MEMBERS FOR PROPOSED FINAL DIVIDEND

The payment of the Proposed Final Dividend is subject to the approval of the shareholders at the 2019 AGM. For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from 11 June 2019 to 14 June 2019 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the Proposed Final Dividend, 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 10 June 2019.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) (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 has met the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “**Governance Code**”) contained in Appendix 14 to the Listing Rules in 2018, except for the deviations summarized below.

Provision A.2.1 of the Code provides that the roles of the Chairman and the chief executive officer (the “**CEO**”) should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the CEO should be clearly established and set out in writing.

Mr. Chen Weizhong (“**Mr. Chen**”) has continually served as both the Chairman and CEO of the Company since its incorporation. He is responsible for managing the Board and the business of the Group. As such, the role of the chairman and chief executive officer of the Company are not being separated pursuant to the requirement under A2.1 of the Code. Although this deviates from the practice in provision A.2.1 of the Code, Mr. Chen has considerable and extensive experience in the cooking wine industry and management in general. The Board believes that it is in the best interest of the Company to have an executive chairman offering strong and consistent leadership in the development and execution of the Group’s business strategies and is beneficial to the Group. The Board can benefit from his knowledge of the business and his capability in leading the Board in discussing the strategy and long-term development of the Group.

From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the Chairman should not be able to monopolize the voting result. The Board considers that the balance of power between the Board and the senior management can still be maintained under the current structure and there is no imminent need to change the arrangement. The remuneration committee and nomination committee of the Board also regularly review the structure and composition of the Board and will make appropriate recommendations to the Board regarding any proposed changes.

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 2018. 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 2018.

REVIEW OF ANNUAL RESULTS

Audit Committee

The audit committee of the Company (the “**Audit Committee**”) (which comprises non-executive Director, namely Ms. Qian Yinglan, and all independent non-executive Directors, namely Mr. Ng Wing Fai (Chairman), Mr. Sun Jiong, Mr. Shen Zhenchang) has reviewed the consolidated financial statements of the Group for the year ended 31 December 2018, 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, Ernst & Young, and recommended that the Board re-appoint Ernst & Young as the Company’s auditor for 2019, which is subject to the approval of the shareholders of the Company at the 2019 AGM.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY THE INDEPENDENT AUDITOR

The figures in respect of the Group’s results for the year ended 31 December 2018 as set out in this preliminary results announcement have been agreed by the Company’s independent auditor, to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by the Company’s independent auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Company’s independent auditor on this preliminary results announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Stock Exchange’s website at www.hkexnews.hk and the Company’s website at www.hzlaohenghe.com. The 2018 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 2019.

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 Weizhong
Chairman

Hong Kong, 29 March 2019

As at the date of this announcement, the executive Directors of the Company are Chen Weizhong, Sheng Mingjian and Wang Chao; and the non-executive Director of the Company is Qian Yinglan; and the independent non-executive Directors of the Company are Shen Zhenchang, Ng Wing Fai and Sun Jiong.