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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2019 amounted to approximately RMB402.2 million, representing an increase of 4.5% from approximately RMB384.9 million for the corresponding period of 2018.
- Gross profit for the six months ended 30 June 2019 amounted to approximately RMB206.2 million, representing an increase of 3.4% from approximately RMB199.4 million for the corresponding period of 2018.
- Profit attributable to owners of the Company for the six months ended 30 June 2019 amounted to approximately RMB99.3 million, representing an increase of 7.7% from approximately RMB92.2 million for the corresponding period of 2018.
- The Board does not recommend the payment of interim dividends for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

* For identification purposes only

In this announcement, “we”, “us” and “our” refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board (the “**Board**”) of directors (the “**Directors**”) of Honworld Group Limited (the “**Company**”) is pleased to announce the unaudited interim condensed consolidated financial results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2019, together with the comparative figures for the corresponding period of 2018 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		RMB'000	RMB'000
	<i>Notes</i>	(Unaudited)	(Unaudited)
REVENUE	4	402,218	384,943
Cost of sales		<u>(195,992)</u>	<u>(185,584)</u>
Gross profit		206,226	199,359
Other income and gains	4	7,509	8,621
Selling and distribution expenses		(32,465)	(37,116)
Administrative expenses		(35,242)	(36,874)
Reversal of impairment losses		243	–
Other expenses		(405)	(1,264)
Finance costs	6	<u>(28,590)</u>	<u>(23,205)</u>
PROFIT BEFORE TAX	5	117,276	109,521
Income tax expense	7	<u>(17,937)</u>	<u>(17,302)</u>
PROFIT FOR THE PERIOD		<u>99,339</u>	<u>92,219</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	8	<u>RMB17.2 cents</u>	<u>RMB15.9 cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>99,339</u>	<u>92,219</u>
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>573</u>	<u>1,521</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>99,912</u>	<u>93,740</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2019

		30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,000,172	1,010,516
Right-of-use assets		55,688	–
Prepaid land lease payments		–	51,973
Intangible assets		1,119	414
Prepayments for items of property, plant and equipment	13	402,769	415,746
Deferred tax assets		4,120	3,905
Total non-current assets		1,463,868	1,482,554
CURRENT ASSETS			
Inventories	11	1,285,765	1,276,502
Trade receivables	12	217,065	194,659
Prepayments, deposits and other receivables	13	399,024	342,909
Pledged deposits	14	68,390	69,659
Cash and cash equivalents	14	508,801	345,188
Total current assets		2,479,045	2,228,917
CURRENT LIABILITIES			
Trade payables	15	101,328	113,326
Other payables and accruals	16	232,636	147,743
Interest-bearing bank and other borrowings	17	1,000,564	932,762
Lease liabilities		685	–
Tax payable		67,302	51,977
Total current liabilities		1,402,515	1,245,808
NET CURRENT ASSETS		1,076,530	983,109
TOTAL ASSETS LESS CURRENT LIABILITIES		2,540,398	2,465,663

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)
30 June 2019

		30 June 2019	31 December 2018
		RMB'000	RMB'000
	<i>Notes</i>	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Lease liabilities		2,988	–
Interest-bearing bank and other borrowings	<i>17</i>	108,620	97,962
Other long term liabilities	<i>18</i>	136,987	137,046
Deferred tax liabilities		28,781	26,725
Total non-current liabilities		277,376	261,733
Net assets		2,263,022	2,203,930
EQUITY			
Share capital	<i>19</i>	1,767	1,767
Reserves		2,261,255	2,202,163
Total equity		2,263,022	2,203,930

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

1. CORPORATE INFORMATION

Honworld Group Limited (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 of the Company (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**”).

The Company is an investment holding company. During the six months ended 30 June 2019, 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**”).

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

Basis of preparation

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s audited consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards and interpretations effective as of 1 January 2019.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015–2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases*, the new and revised standards above did not have a material effect on this interim condensed consolidated financial information.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Changes in accounting policies and disclosures (continued)

IFRS 16 — Leases

IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases — Incentives* and SIC-Int 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 account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

As a lessee — Leases previously classified as operating leases (continued)

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The Group elected to present the lease liabilities separately in the statement of financial position.

The right-of-use assets amounting to RMB2,930,000, were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019. The Group elected to present the right-of-use assets separately in the statement of financial position. This, other than aforementioned, includes prepaid land lease payments in aggregate of RMB56,173,000 reclassified from prepaid land lease payments of RMB51,973,000 and prepayments, other receivables and other assets of RMB1,270,000, respectively. All these assets were assessed for any impairment based on IAS 36 on that date.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	56,173
Decrease in prepaid land lease payments	(51,973)
Decrease in prepayments, other receivables and other assets	(1,270)
Increase in total assets	<u>2,930</u>
Liabilities	
Increase in lease payable	3,237
Increase in total liabilities	<u>3,237</u>
Decrease in retained earnings	<u>(307)</u>

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

As a lessee — Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	<i>RMB'000</i> (Unaudited)
Operating lease commitments as at 31 December 2018	5,719
Weighted average incremental borrowing rate as at 1 January 2019	4.9%
Discounted operating lease commitments at 1 January 2019	4,877
Less:	
Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	 (1,640)
Lease liabilities as at 1 January 2019	<u>3,237</u>

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Summary of new accounting policies (continued)

Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of- use assets Land RMB'000	Lease liabilities RMB'000
As at 1 January 2019	56,173	3,237
Additions	348	348
Depreciation charge	(833)	–
Interest expense	–	88
As at 30 June 2019	<u>55,688</u>	<u>3,673</u>

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.

Information about major customers

Revenue amounting to 10 percent or more of the Group's revenue derived from sales to a single customer for the six months ended 30 June 2019 is set out in the following table:

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Customer X	45,953	48,674
Customer Y	42,825	40,282
	<u>88,778</u>	<u>88,956</u>

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of the Group's revenue, other income and gains is as follows:

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
<i>Revenue from contracts with customers</i>		
Sale of goods	<u>402,218</u>	<u>384,943</u>

4. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the six months ended 30 June 2019

	Six months ended 30 June 2019 RMB'000 (Unaudited)
Type of goods	
Condiment products	402,218
Timing of revenue recognition	
Goods transferred at a point in time	402,218

(ii) *Performance obligations*

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

Sale of products

The performance obligation is satisfied upon delivery/receipt 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

	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Subsidy received	5,764	7,144
Interest income	1,472	883
Gain from sale of materials	187	508
Rental income	86	86
	<u>7,509</u>	<u>8,621</u>

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	195,992	185,584
Depreciation	31,935	21,589
Depreciation of right-of-use assets	833	–
Amortisation of prepaid land lease payments	–	637
Amortisation of intangible assets	79	–
Minimum lease payments under operating leases	1,277	958
Auditor's remuneration	477	380
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	22,330	17,695
Pension scheme contributions	1,845	2,088
	24,175	19,783
Foreign exchange loss, net	407	765
Donations	–	100
Research and development costs	17,987	17,978
Reversal of impairment losses of trade receivable	(243)	–

6. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank loans and other borrowings	26,388	21,179
Interest on finance leases	2,113	2,026
Interest on lease liabilities	89	–
	28,590	23,205

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — PRC		
Charge for the period	16,096	15,533
Deferred	1,841	1,769
	<u>17,937</u>	<u>17,302</u>
Tax charge for the period	<u>17,937</u>	<u>17,302</u>

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 578,750,000 (six months ended 30 June 2018: 578,750,000) in issue during the six months ended 30 June 2019.

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity holders of the Company (RMB'000)	99,339	92,219
Weighted average number of ordinary shares in issue (in thousands)	578,750	578,750
Earnings per share attributable to ordinary equity holders of the Company		
— Basic and diluted (RMB cents)	17.2	15.9

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30 June 2019 and 2018 in respect of a dilution as the Group has no potential dilutive ordinary shares in issue.

9. DIVIDEND

No interim dividend was proposed for the six months ended 30 June 2019.

The proposed 2018 final dividend of RMB7.0 cents per share, totalling RMB40,513,000, was approved by the Company's shareholders at the annual general meeting on 31 May 2019. It was recorded in "other payables and accruals" in the interim condensed consolidated statement of financial position and was subsequently distributed in July 2019.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group purchased property, plant and equipment with an aggregate cost of RMB21,591,000 (six months ended 30 June 2018: RMB33,436,000).

11. INVENTORIES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Raw materials	24,933	12,113
Work in progress	1,244,876	1,225,093
Finished goods	15,956	39,296
Total inventories	<u>1,285,765</u>	<u>1,276,502</u>

12. TRADE RECEIVABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade receivables	217,504	195,341
Impairment	(439)	(682)
Trade receivables	<u>217,065</u>	<u>194,659</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally one to six months, extending to longer periods for those long standing customers.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables of the Group based on the invoice date, is as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 3 months	195,914	187,215
3 to 6 months	18,819	2,870
6 months to 1 year	1,894	3,511
Over 1 year	438	1,063
Total	<u>217,065</u>	<u>194,659</u>

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Prepayments	580,128	603,360
Value-added tax recoverable	179,154	125,808
Deposits and other receivables	42,511	29,487
	<u>801,793</u>	<u>758,655</u>
Portion classified as non-current	<u>(402,769)</u>	<u>(415,746)</u>
Current portion included in prepayments, other receivables and other assets	<u><u>399,024</u></u>	<u><u>342,909</u></u>

The above balances are unsecured, interest-free and have no fixed terms of repayment. The Directors are of the opinion that no provision for impairment of prepayments, deposits and other receivables is necessary.

14. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Cash and bank balances	508,801	345,188
Time deposits	68,390	69,659
	<u>577,191</u>	<u>414,847</u>
Less:		
Pledged for bank loans	<u>(68,390)</u>	<u>(69,659)</u>
Cash and cash equivalents	<u><u>508,801</u></u>	<u><u>345,188</u></u>
Cash and cash equivalents are denominated in:		
RMB	505,058	339,071
Hong Kong Dollar (HK\$)	2,642	5,170
USD	1,101	947
Cash and cash equivalents	<u><u>508,801</u></u>	<u><u>345,188</u></u>

15. TRADE PAYABLES

An ageing analysis of the trade payables of the Group based on the invoice date, is as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 3 months	50,016	77,248
3 to 6 months	19,655	20,661
Over 6 months	31,657	15,417
	<u>101,328</u>	<u>113,326</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.

16. OTHER PAYABLES AND ACCRUALS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Other payables	192,611	100,230
Accruals	29,136	26,048
Contract liabilities	10,889	21,465
	<u>232,636</u>	<u>147,743</u>

The above balances are unsecured, interest-free and other payables have an average term of three months.

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Current		
Bank loans — secured ^(a)	943,277	898,157
Other borrowings ^(a)	21,969	—
Finance lease payables ^(a)	35,318	34,605
	<u>1,000,564</u>	<u>932,762</u>
Non-current		
Bank loans — secured ^(a)	55,000	70,000
Other borrowings ^(a)	42,804	—
Finance lease payables ^(a)	10,816	27,962
	<u>108,620</u>	<u>97,962</u>
Total	<u>1,109,184</u>	<u>1,030,724</u>

17. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

The interest-bearing bank and other borrowings as at 30 June 2019 were all denominated in RMB, repayable within three years and bearing interests at 3.92%–7.97% per annum.

- (a) The following assets were pledged as securities for interest-bearing bank and other borrowings:

	Carrying values	
	30 June	31 December
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Property, plant and equipment	376,943	257,155
Leasehold land	–	53,179
Right-of-use assets	52,554	–
Inventories	712,114	703,415
Pledged deposits	68,390	69,659
	<u>1,210,001</u>	<u>1,083,408</u>

- (b) Certain of the Group's bank loans were guaranteed by Mr. Chen Weizhong, the Director of the Company, Ms. Xing Liyu, spouse of Mr. Chen Weizhong, Mr. Chen Weidong, brother of Mr. Chen Weizhong and related companies of the Group (note 22(d)).
- (c) As at 30 June 2019, the Group's bank loans amounting to approximately RMB730,277,000 (31 December 2018: RMB660,920,000) were not in compliance with certain financial loan covenants, among which a balance of RMB22,000,000 (31 December 2018: RMB88,000,000) that is repayable after one year from 30 June 2019 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.

The carrying amounts of the Group's bank and other borrowings approximate to their fair values.

18. OTHER LONG TERM LIABILITIES

		30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
	Notes		
Other long term payables	(a)	133,000	133,000
Special payables	(b)	3,987	4,046
		<u>136,987</u>	<u>137,046</u>

- (a) On 6 May 2016, two wholly-owned subsidiaries of the Company, Huzhou Chen Shi Tian Niang Management Consulting Co., Ltd (“**Huzhou Chenshi**”) and Huzhou Laohenghe Brewery Co., Limited (“**Huzhou Laohenghe**”, which is also the wholly-owned subsidiary of Huzhou Chenshi) entered into an investment agreement with China Development Fund Co., Ltd (“**CD Fund**”) (the “**Investment Agreement**”). Pursuant to the Investment Agreement, CD Fund agreed to subscribe for 3.5% of equity interest of Huzhou Laohenghe for a total cash consideration of RMB133 million (the “**Capital Investment**”) and Huzhou Laohenghe shall pay CD Fund fix annual return equal to 1.2% of the Capital Investment from the date of the agreement. In additions, Huzhou Chenshi has contractual obligation to repurchase all the equity interest of Huzhou Laohenghe held by 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 CD Fund pursuant to the Investment Agreement, the Capital Investment of RMB133 million was recorded as a financial liability.

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Amounts repayable:		
1 to 5 years	133,000	83,000
Over five years	–	50,000
	<u>133,000</u>	<u>133,000</u>

18. OTHER LONG TERM LIABILITIES (continued)

- (b) As at 30 June 2019, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to the acquisition of Huzhou Laohenghe Brewery Co., Limited by the controlling shareholder, Mr. Chen Weizhong, and the early retirement obligations for employees who early retired were RMB3,987,000 (31 December 2018: RMB4,046,000). The benefit obligations arising from the plans were unfunded.

The movements of the actuarial liabilities recognised in the statement of financial position are as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Carrying amount at the beginning of the period/year	4,046	4,179
Benefits paid	(59)	(133)
At the end of the period/year	<u>3,987</u>	<u>4,046</u>

19. SHARE CAPITAL

Shares

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Authorised:		
1,000,000,000 ordinary shares of US\$0.0005 (RMB0.00305) each	<u>3,050</u>	<u>3,050</u>
Issued and fully paid:		
578,750,000 ordinary shares of US\$0.0005 (RMB0.00305) each	<u>1,767</u>	<u>1,767</u>

20. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its land and buildings under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging between one to ten years.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2018 <i>RMB'000</i> (Audited)
Within one year	2,139
In the second to fifth years, inclusive	2,076
After five years	1,504
	<u>5,719</u>

21. COMMITMENTS

In addition to the operating lease commitments detailed in note 20 above, the Group had capital commitments as follows:

	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
Contracted, but not provided for:		
Plant and machinery	<u>236,759</u>	<u>133,281</u>

22. RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name	Relationship
Mr. Chen Weizhong	The executive director of the Company
Mr. Chen Weidong	Brother of Mr. Chen Weizhong
Ms. Xing Liyu	Spouse of Mr. Chen Weizhong
Zhejiang Zhongwei Brewery Limited	Company significantly influenced by Mr. Chen Jinhao, son of Mr. Chen Weizhong

(b) Outstanding balances with related parties

The Group had no outstanding balance due to its related parties as at 30 June 2019.

22. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	293	293
Pension scheme contributions	40	38
Total compensation paid to key management personnel	333	331

(d) Transactions with related parties:

	30 June	31 December
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Bank loans guaranteed by:		
Mr. Chen Weizhong	–	50,000
Mr. Chen Weizhong and Ms. Xing Liyu	569,040	587,160
Mr. Chen Weizhong and Mr. Chen Weidong	70,000	20,000
Mr. Chen Weizhong and Ms. Xing Liyu and Zhejiang Zhongwei Brewery Limited	135,000	95,000
	774,040	752,160

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”). We offer high quality and healthy brewed cooking wine as well as other condiments, including products like naturally-brewed soy sauce, naturally-brewed vinegar, soybean paste and fermented bean curd. In the first half of 2019, we attained the following achievements:

1. We were awarded the title of “Top 50 Enterprises in China's Light Industry Food Industry (中國輕工業食品行業五十強企業)” by the China National Light Industry Council (中國輕工業聯合會);
2. In the “13th China International Wine Expo Evaluation Campaign (第十三屆中國國際酒業博覽會評價活動)”, our “15% Cooking Wine (15度料酒)” and our “30-year old yellow wine brewed from a recipe dated back to the Song dynasty (宋方30年陳黃酒)” were awarded the title of “Gold Award for Cooking Wine (釀造料酒金獎)” and “Qingzhuo Awards” for New Alcoholic Product (yellow wine) of the year 2018 (2018年度「青酌獎」酒類新品(黃酒類)) respectively;
3. In the 8th “Global Overall Rating List (環球總評榜)”, we were awarded the “Top 30 Culturally Influential Enterprises of 2018 (2018 老字號文化影響力企業30強)”; and
4. The press conference of Group Standards for China's Cereal-based Brewed Cooking Wine (中國穀物釀造料酒團體標準) was successfully held in Huzhou. By taking advantage of the press conference, we ceremoniously introduced new products for catering channel consumption.

After the continuous establishment of distribution channels, catering channels and e-commerce channels (the “**New Sales Channels**”) over the years, our sales channels have successfully covered 30 provinces, autonomous regions and municipalities across the country with approximately 1,300 distributors. Sales contribution from each individual distributor of the New Sales Channels have expanded year by year. The sales from the New Sales Channels increased from RMB178.2 million in the first half of 2018 to RMB194.8 million in the first half of 2019, representing a growth of 9.3%.

In the first half of 2019, with the maturation of our New Sales Channels, the Company's marketing resources are more evenly allocated between New Sales Channels and supermarket channels with synergy starting to emerge. The sales from supermarket channels were still able to maintain a slight growth despite the general downward trend of the supermarket industry, which increased from RMB206.7 million in the first half of 2018 to RMB207.4 million in the first half of 2019.

For the above reasons, for the six months ended 30 June 2019, the Group recorded a revenue of approximately RMB402.2 million (30 June 2018: RMB384.9 million), representing an increase of approximately 4.5% as compared to the corresponding period of 2018, and the profit attributable to ordinary equity holders of the Company was approximately RMB99.3 million (30 June 2018: RMB92.2 million), representing an increase of approximately 7.7% as compared to the corresponding period of 2018.

In the first half of 2019, cooking wine, our key products, remained as the major source of our revenue, representing 70.3% of the total revenue. With the gradual release of our production capacity of soy sauce, our sales of soy sauce increased by 16.6% in the first half of 2019 as compared with that in the first half of 2018 and accounted for 16.8% of our total revenue. In view of growing demand of our customers in the New Sales Channels and the anticipated sales growth of soy sauce, rice vinegar and fermented bean curd products brought by the further development of the New Sales Channels, we consider that a rich and diversified condiment products portfolio would be more beneficial to the business development of the Group in the coming years. Thus, we will continue to enhance the production capacity of soy sauce, rice vinegar and fermented bean curd 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 advantage, such that we will be able to achieve in-depth development for the industry chain of the Group's condiment products at multiple levels, thereby establishing Lao Heng He as a diversified condiment manufacturer with cooking wine as a dominant product.

Our profitability mainly depends on product pricing and our cost of sales, marketing strategy and the product structure and mix. We are actively monitoring any potential risk factors that may have impact on our financial results, and trying to mitigate any increasing costs and expenses with more efficient operation, higher profit margins and better product mix and sales channels. The Group faces certain risks in its business development, including: (1) risk of significant increase in production cost, such as increase in the prices of subsidiary agricultural products, packaging cost or labour cost; (2) negative impact on our revenue due to changes in customers' spending habits in condiment products; (3) the greater-than-expected increase in cost from market expansion and selling expenses; (4) the possible failure of our new products to obtain market recognition in the short run; and (5) increasing complexity of managing sales policies and credit terms due to rapid expansion of our distributors.

GOALS AND STRATEGIES

Under the backdrop of the keen competition and thrive development of the condiment market, we will continue to pursue the “Diversification” strategy, concentrating our investment and resources on market penetration of New Sales Channels and improvement of product mix. 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.

Our business goal is to consolidate our position in the condiments industry by leveraging on our leading position in the cooking wine industry with synergies from diversified strategies. On one hand, we will further increase the input in establishing the marketing team and training staff. On the other hand, we will enrich the product structure of the Company and offer a variety of high-quality products that are in line with the consumption downgrade and spending 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.

We also actively promote products suitable for the catering market. By holding various types of connoisseur sessions, such as Huzhou Culinary Exchange Conference for SME Chefs (湖州中小餐飲廚師交流會) and Sino-Italian Michelin Night Festival (Hangzhou) (中意米其林盛典之夜(杭州)) etc., more chefs were able to understand and recognise our products, thereby expanding our catering channels and promoting the sales of our catering products.

We also actively build our internet sales platform and embrace “New Retail”. By cooperating with major e-commerce platforms and media platforms, the Company could accurately promote the products to our potential customers to meet their unique needs.

We always pay close attention to and actively address any risks that may come along with the growth. In the first half of 2019, we upgraded the digitalised management system and launched a more comprehensive ERP system to cope with our rapidly expanding sales scale. Apart from that, we inspire the vitality of the marketing team by reforming and improving the remuneration policy of the sales team in response to the negative impact caused by the incompetence of our sales teams on the sales of the Group’s products. We will keep improving our credit risk management system in response 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 communication in response to the negative impact caused by the difference in pricing policy in different locations that leads to cross-sales of products to other exclusively-authorised distribution areas on our sales and our distributors.

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

Financial Review

Overview

The key financial indicators of the Group are as follows:

	Six months ended 30 June 2019 RMB'000		2018 RMB'000	Period-to- period change
Income statement items				
REVENUE	402,218		384,943	4.5%
Gross profit	206,226		199,359	3.4%
Profit attributable to owners of the Company	99,339		92,219	7.7%
EBITDA	178,713		154,952	15.3%
Earnings per share (RMB cents) (note a)				
— basic and diluted	17.2		15.9	8.2%
Selected financial ratios				
Gross profit margin (%)	51.3%		51.8%	(1.0%)
Net profit margin attributable to owners of the Company (%)	24.7%		24.0%	2.9%
EBITDA margin (%)	44.4%		40.3%	10.2%
	30 June 2019 RMB'000	31 December 2018 RMB'000		Period-to- period change
Gearing ratio (note b)	32.2%		33.0%	(2.4%)

Notes:

- (a) Please refer to note 8 to the financial statements 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 30 June 2019. Net debt includes total debt net of cash and cash equivalents. Total debt includes trade payables, other payables and accruals, lease liabilities, interest-bearing bank and other borrowings and other long term liabilities.

Revenue

The revenue of the Group increased by 4.5% from RMB384.9 million for the six months ended 30 June 2018 to RMB402.2 million for the corresponding period of 2019, primarily attributable to the continuous establishment of New Sales Channels and the sales growth brought by the synergy effect from diversified products.

Revenue from the Group's cooking wine products increased by 4.5% from RMB270.4 million for the six months ended 30 June 2018 to RMB282.5 million for the corresponding period of 2019, primarily reflecting the increase in the sales of cooking wine products arising from the Group's persistent endeavor in market penetration of distribution channel.

Revenue from the Group's soy sauce products increased by 16.6% from RMB57.7 million for the six months ended 30 June 2018 to RMB67.3 million for the corresponding period of 2019, mainly due to the Group's effort in devoting more marketing resources to soy sauce products and additional sales brought forth by new products "Brewed-twice Soy Sauce" (雙曬醬油), "Seasoned Soy Sauce" (味極鮮) and "Seasoned Soy Sauce for Seafood" (蒸魚豉油).

While introducing new products to the market, we have also adjusted our product portfolio of rice vinegar and other products by reducing the production volume of underperforming products during this period. As a result, the revenue from rice vinegar and other products decreased by 7.8% from RMB56.8 million for the six months ended 30 June 2018 to RMB52.4 million for the corresponding period of 2019.

Cost of Sales

The Group's cost of sales, including raw materials, manufacturing overhead and salaries and benefits, increased by 5.6% from RMB185.6 million for the six months ended 30 June 2018 to RMB196.0 million for the corresponding period of 2019, primarily attributable to the combined effects of growing revenue and rising prices for raw materials.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by 3.4% from RMB199.4 million for the six months ended 30 June 2018 to RMB206.2 million for the corresponding period of 2019, and the gross profit margin decreased from 51.8% for the six months ended 30 June 2018 to 51.3% for the corresponding period of 2019. The decrease in gross profit margin is primarily due to the combined effects of rising raw material costs and higher sales contribution from medium-range cooking wine products.

Other Income and Gains

Other income and gains decreased by 12.9% from RMB8.6 million for the six months ended 30 June 2018 to RMB7.5 million for the corresponding period of 2019. Other income and gains primarily include government subsidies received, gains from sales of materials and interest income. The decrease in other income and gains for the period was primarily due to decrease in government subsidies received and gains from sales of materials.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising expenses, marketing expenses, travelling expenses, and remuneration for our sales employees. The Group's selling and distribution expenses decreased by 12.5% from RMB37.2 million for the six months ended 30 June 2018 to RMB32.5 million for the corresponding period of 2019. The Group's selling and distribution expenses as a percentage of the Group's revenue decreased from 9.6% for the six months ended 30 June 2018 to 8.1% for the corresponding period of 2019, primarily attributable to the decrease in commitment of advertising expenses for channel-building as a result of the maturation of our New Sales Channels.

Administrative Expenses

Administrative expenses decreased by 4.4% from RMB36.9 million for the six months ended 30 June 2018 to RMB35.2 million for the corresponding period of 2019, mainly due to decrease in research and development expenses as the Group has achieved initial success in research and development activities to improve the technical content in terms of production process and quality of our cooking wine products. The Group will focus its future research and development direction on the development of new products and processes for the Group's catering channels.

Finance Costs

Finance costs increased by 23.2% from RMB23.2 million for the six months ended 30 June 2018 to RMB28.6 million for the corresponding period of 2019, mainly due to the increase in average balance of bank loans to meet our working capital requirements for business expansion.

Profit before Tax

As a result of the foregoing, the profit before tax increased by 7.1% from RMB109.5 million for the six months ended 30 June 2018 to RMB117.3 million for the corresponding period of 2019.

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% (2018: 25%) on the taxable profits, in accordance with the existing legislation, interpretations and practices. Pursuant to the approval from the National Office of Leading Group for Administration of Hi-tech Enterprise Recognition (全國高新技術企業認定管理工作領導小組辦公室), 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” (高新技術企業) qualification and were entitled to the preferential tax rate of 15% for three consecutive years commencing from 2016.

Income tax expenses increased by 3.7% from RMB17.3 million for the six months ended 30 June 2018 to RMB17.9 million for the corresponding period of 2019, mainly due to increase in profit before tax.

Earnings per Share Attributable to Ordinary Equity Holders of the Company

Basic earnings per share increased from RMB15.9 cents for the six months ended 30 June 2018 to RMB17.2 cents for the corresponding period of 2019, mainly due to the increase in net profit caused by the reasons stated above.

Net Profit Margin

The net profit margin remained stable for the six months ended 30 June 2019 as compared to the corresponding period of 2018.

Financial and Liquidity Position

Working Capital Management

Prepayments

Details of prepayments as at 30 June 2019 and 31 December 2018 are as follows:

		30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
	<i>Notes</i>		
Prepayments for non-current assets	(i)	402,769	415,746
Prepayments for procurement of base wine and condiment products	(ii)	88,832	100,000
Prepayments for procurement of raw materials	(iii)	86,316	83,220
Other prepayments		2,211	4,394
		580,128	603,360

- (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 the main contractor pursuant to the master construction contracts. The directors estimated that RMB185,260,000 and RMB217,509,000 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.
- (ii) Prepayments for procurement of base wine and condiment products primarily included prepayments for procurements of base wine and condiment products from an independent third party manufacturer under a poverty alleviation program led by China Development Bank Zhejiang Branch. RMB57,918,000 and RMB30,914,000 of prepayments for procurements of condiment products would be gradually 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 procurement 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 to be settled in a period of 12 months according to the procurement schedules between the suppliers and the Group.

Trade Receivables

Trade receivables primarily represented the receivables for goods sold to the distributors. Trade receivables turnover days increased from 67 days for the year ended 31 December 2018 to 92 days for the six months ended 30 June 2019, mainly due to the Group's temporary relaxation of the credit period for some customers with long-term cooperation intentions to consolidate customer base under the sales expectations from customers of new channel .

Inventories

Inventories increased from RMB1,276.5 million as at 31 December 2018 to RMB1,285.8 million as at 30 June 2019 primarily due to an increase in work in progress. A substantial part of our inventories are work in progress, mainly represented by semi-finished base wine, base soy sauce, base vinegar, soybean paste and fermented bean curd in the brewing period.

Due to the relatively long production cycle and relatively short sales cycle of cooking wine products, we need to keep an abundant stock of well-aged base wine to cope with the rapid sales growth in the future. On the other hand, given the growing demand from customers of the New Sales Channels, we have produced more base soy sauce, base vinegar and fermented bean curd accordingly during the period.

The Group monitors the level of inventory maintained by its distributors on a regular basis. The Group's sales representatives maintain frequent telephone or email communications with each of its Categories A, B, C and D distributors, review their monthly inventory reports and visit their warehouses on a regular basis. The Group's sales representatives visit its Category A and B distributors' warehouses at least every three months to ensure that they keep optimal stock level and the Group's products are sold to end customers within the shelf life. The Group generally expects its distributors to maintain stock sufficient 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 smaller sized orders to be placed for the succeeding periods to minimize excess inventory.

Borrowings

As at 30 June 2019, the Group's total borrowings amounted to RMB1,109.2 million (31 December 2018: RMB1,030.7 million). The Group's principal sources of liquidity include cash generated from business operations, bank and other borrowings. The cash from these sources was primarily used for the Group's working capital and the expansion of production capacity. Presently, the Group does not employ any financial instruments to hedge against the interest rate exposure.

Exchange Risk

The Group conducted its business primarily in China with the majority of its revenue and expenditures denominated in Renminbi. The Group does not have a foreign currency hedging policy. However, the management will monitor the situation and will consider hedging any significant foreign currency exposure should the need arise.

Liquidity and Financial Resources

As at 30 June 2019, the Group had cash and cash equivalents of RMB508.8 million (31 December 2018: RMB345.2 million). As at 30 June 2019, the Group had interest-bearing bank and other borrowings of an aggregate amount of RMB1,109.2 million (31 December 2018: RMB1,030.7 million), which were denominated in RMB, repayable within four years and bearing interests at 3.92% to 7.97% per annum. As at 30 June 2019, the gearing ratio was 32.2% (31 December 2018: 33.0%). The gearing ratio is calculated based on net debt divided by total equity and net debt as at 30 June 2019. Net debt includes total debt net of cash and cash equivalents. Total debt includes trade payables, other payables and accruals, lease liabilities, interest-bearing bank and other borrowings and other long term liabilities.

Capital Commitments

Capital commitments as at 30 June 2019 amounted to approximately RMB236.8 million (31 December 2018: RMB133.3 million), mainly related to the contracts of construction in progress relating to expansion of the condiment production factory.

Contingent Liabilities

As at 30 June 2019, the Group did not have any material contingent liability.

Pledge of Assets

Please refer to note 17(a) of interim condensed consolidated financial statements for details of pledge of assets of the Group.

Except as disclosed in this announcement, the Group has not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third party. The Group does not have any interest in any unconsolidated entity to which the Group provides financing, liquid capital, market risk or credit support or for which the Group engages in leasing or hedging or research and development or other services.

FUTURE PROSPECTS

In the first half of 2019, although the economic environment, both domestic and international, is very severe, the condiment major category sector, being a major product category, is in the stage of rapid growth with products being segmented and the market category gradually becoming concentrated. In addition, the booming development of the catering industry has also led to the continuous growth in demand for condiments products, and steady growth of consumption. In recent years, with the decline of the GDP growth, the advantages of leading brand enterprises in the cooking wine industry in terms of technology, capital, market and risk resistance are relatively obvious as compared to small enterprises. By deepening the measures on food safety and environmental protection, the leading brand enterprises in the industry will secure more room for development while that of small brands will be squeezed. As the market share of leading enterprises continues to increase, smart production, product sophistication and category diversification will become a major development direction for brand enterprises. Meanwhile, residents' consumption is vigorously encouraged by the state. As condiments are necessary consumables, high-quality products are becoming increasingly popular and the per capita consumption of condiments in China is gradually increasing, which requires ongoing improvement and innovation from the condiment enterprises to maintain healthy and sustainable development in the condiment industry.

As for the cooking wine market, with the promulgation of standards for cereal-based brewed cooking wine issued by China Alcoholic Drinks Association (中國酒業協會), it will inevitably facilitate the transformation or elimination of formulated cooking wine producers, and competition in the industry will shift from price to quality. Cooking wine market is expected to evolve into a stage of rapid growth in both sales volume and prices.

On the other hand, with the changes in consumer's consumption scenarios, we believe that the catering market will continue to be the major market for condiments consumption. In order to better penetrate into the catering market, we launched more new products with higher price-performance ratio for the catering market in the first half of 2019, such as 1.75L "Lao Heng He" cooking wine, 500ml "Lao Heng He" craft cooking wine (精製料酒), 500ml "Lao Heng He" cooking wine for braising (紅燒料酒) etc., which enjoy wide acceptance in the market. We expect to further increase our input in the catering channels end and product end to capture larger market share.

Under such major trend, our “Lao Heng He” products with outstanding brand awareness, modernised traditional craftsmanship, mature quality control system and completed product research and development system will secure more room for 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. We will also keep expanding our production capacity to enhance our overall profitability through economies of scale.

Therefore, we believe that our “Lao Heng He” brand products will continue to grow in China.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Company or the Group after 30 June 2019.

EMPLOYEES & REMUNERATION POLICIES

As at 30 June 2019, the Group had a total of 557 employees (31 December 2018: 605). The employees’ cost (excluding directors’ and chief executive’s remuneration) of the Group was RMB24.2 million during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB19.8 million). The remuneration policies, bonus and training programs for employees of our Group were implemented continuously according to the policies disclosed in the Group’s annual report for the year ended 31 December 2018 (the “**2018 Annual Report**”) and no change has been made during the six months ended 30 June 2019.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Group as at 30 June 2019 (31 December 2018: nil).

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

There was no material acquisition and disposal of subsidiaries, associates or joint ventures during the six months ended 30 June 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2019, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities.

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management structures and internal control procedures of the Company as well as preserving the interests of the shareholders as a whole.

The Company has adopted the code provisions set out in the Corporate Governance Code (the “**Code**”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) since the Listing Date as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time to maintain and improve the high standard of corporate governance practices.

Save for the deviations explained below, the Company has complied with the Code for the six months ended 30 June 2019.

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.

During the six months ended 30 June 2019, the positions of the Chairman and the CEO of the Company are held by Mr. Chen Weizhong. Although this deviates from the practice in provision A.2.1 of the Code, where the two positions should be held by two different individuals, Mr. Chen Weizhong 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 so 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. 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 maintain and implement 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 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 the Directors confirm that they have complied with the Model Code during the six months ended 30 June 2019. In addition, the Company is not aware of any noncompliance of the Model Code by the senior management of the Group during the six months ended 30 June 2019.

CHANGE IN CORPORATE POSITIONS

With effect from 12 April 2019, (i) Ms. Qian Yinglan (錢英嵐) has resigned as a non-executive Director and ceased to be a member of Audit Committee and (ii) Mr. He Yuanchuan (何源川) has been appointed as a non-executive Director and a member of Audit Committee.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) is comprised of three independent non-executive Directors and one non-executive Director, namely Mr. Ng Wing Fai (chairman), Mr. Shen Zhenchang, Mr. Sun Jiong and Mr. He Yuanchuan.

The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial information, financial reporting system, internal control and risk management system of the Group, to oversee the audit process, to develop and review the Group’s policies and to perform other duties and responsibilities as assigned by the Board. The Audit Committee has reviewed the accounting principles and policies adopted by the Group together with the management and discussed auditing, internal controls and financial reporting matters.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has discussed with the management of the Company and reviewed and passed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 and recommended its adoption by the Board.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.hzlaohenghe.com. The interim report of the Company for the six months ended 30 June 2019 containing all the information required by the Listing Rules will be dispatched to shareholders and published on the above websites in due course.

I would again like to express my sincere appreciation to all shareholders, diligent employees and friends from all sectors for their support to the Company.

By Order of the Board
Honworld Group Limited
Chen Weizhong
Chairman

Hong Kong, 30 August 2019

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Chen Weizhong, Mr. Sheng Mingjian and Mr. Wang Chao; one non-executive Director, namely Mr. He Yuanchuan; and three independent non-executive Directors, namely, Mr. Shen Zhenchang, Mr. Ng Wing Fai and Mr. Sun Jiong.