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Honworld Group Limited
老恒和釀造有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2226)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2019 amounted to RMB915.2 million, representing an increase of 4.7% from RMB874.4 million recorded in 2018.
- Gross profit for the year ended 31 December 2019 amounted to RMB443.9 million, representing a decrease of 2.9% from RMB457.0 million recorded in 2018.
- Profit attributable to ordinary equity holders of the Company for the year ended 31 December 2019 amounted to RMB195.3 million, representing a decrease of 3.2% from RMB201.7 million recorded in 2018.
- The Board has recommended the payment of a final dividend of RMB6.8 cents per ordinary share for 2019.

* *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 2019 (the "**FY2019 Annual Results**"), together with the comparative figures for the year ended 31 December 2018.

The FY2019 Annual Results have neither been audited nor reviewed by the Company's independent auditor. In addition, the FY2019 Annual Results have not yet been agreed by the Company's independent auditor as required under Rule 13.49(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) (the "**Listing Rules**") due to delay in the audit procedures resulting from the novel coronavirus outbreak in the People's Republic of China (the "**PRC**"), in particular delay in obtaining certain confirmations and postponement of the independent auditor's field works. The Company expects the auditing process will be completed on or before 20 April 2020, and a further announcement will be published as and when appropriate. The FY2019 Annual Results have been reviewed by the audit committee of the Company (the "**Audit Committee**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended 31 December 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
REVENUE	*4*	**915,170**	874,410
Cost of sales		**(471,262)**	(417,448)
Gross profit		**443,908**	456,962
Other income and gains	*4*	**15,429**	11,652
Selling and distribution expenses		**(96,086)**	(102,610)
Administrative expenses		**(76,670)**	(74,747)
Impairment losses on financial assets	*5*	**(1,512)**	(682)
Other expenses		**(1,981)**	(4,523)
Finance costs	*6*	**(54,701)**	(50,427)
PROFIT BEFORE TAX	*5*	**228,387**	235,625
Income tax expense	*7*	**(33,093)**	(33,919)
PROFIT FOR THE YEAR		**195,294**	201,706
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*9*		
Basic and diluted		**RMB33.7 cents**	RMB34.9 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**195,294**	201,706
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,570**	6,004
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**197,864**	207,710

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,061,878**	1,010,516
Prepaid land lease payments	*10(a)*	**–**	51,973
Right-of-use assets	*10(b)*	**55,245**	–
Other intangible assets		**1,045**	414
Prepayments, other receivables and other assets		**345,570**	415,746
Deferred tax assets		**4,741**	3,905
Total non-current assets		**1,468,479**	1,482,554
CURRENT ASSETS			
Inventories	*11*	**1,403,731**	1,276,502
Trade receivables	*12*	**254,811**	194,659
Prepayments, other receivables and other assets		**378,953**	342,909
Pledged deposits		**67,039**	69,659
Cash and cash equivalents		**410,107**	345,188
Total current assets		**2,514,641**	2,228,917
CURRENT LIABILITIES			
Trade payables	*13*	**78,587**	113,326
Other payables and accruals		**269,938**	147,743
Interest-bearing bank and other borrowings		**918,141**	932,762
Tax payable		**81,067**	51,977
Total current liabilities		**1,347,733**	1,245,808
NET CURRENT ASSETS		**1,166,908**	983,109
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,635,387**	2,465,663

	2019	2018
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**106,673**	97,962
Other long term liabilities	**136,948**	137,046
Deferred tax liabilities	**30,792**	26,725
Total non-current liabilities	**274,413**	261,733
Net assets	**2,360,974**	2,203,930
EQUITY		
Share capital	**1,767**	1,767
Reserves	**2,359,207**	2,202,163
Total equity	**2,360,974**	2,203,930

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 consolidated 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 consolidated 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 2019. 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 Company 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 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16, the adoption of the above new and revised standards has had no significant financial effect on these consolidated financial statements.

IFRS 16 Leases

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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

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 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 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.

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 and land use right. 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 leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact 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 and included in interest-bearing bank and other borrowings. The right-of-use assets 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.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position. This includes the land use right of RMB56,173,000 that were reclassified from prepaid land lease payment and prepayments, other receivables and other assets.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

As a lessee — Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under IAS 17.

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *RMB'000*
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	2,930
Liabilities	
Increase in interest-bearing bank and other borrowings	3,237
Decrease in retained earnings	307

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

	RMB'000
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 as at 1 January 2019	4,877
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(1,640)
Lease liabilities as at 1 January 2019	3,237

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 consolidated financial statements.

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
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, 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.

3. OPERATING SEGMENT INFORMATION

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

- The food segment that manufactures and sells condiment products.

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

Information about major customers

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

	2019	2018
	RMB'000	*RMB'000*
Customer A	**121,302**	111,562
Customer B	**108,548**	95,514
	229,850	207,076

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods	**915,170**	874,410

Revenue from contracts with customers

(i) Disaggregated revenue information

	2019	2018
	RMB'000	*RMB'000*
Type of goods		
Condiment products	**915,170**	874,410
Timing of revenue recognition		
Goods transferred at a point in time	**915,170**	874,410

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:

	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**21,465**	17,085

(ii) Performance obligations

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

Sale of products

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

Other income and gains

	2019	2018
	RMB'000	*RMB'000*
Subsidies received*	**12,104**	9,315
Interest income	**1,856**	2,092
Others	**1,469**	245
	15,429	11,652

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

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

		2019	2018
	Notes	***RMB'000***	*RMB'000*
Costs of inventories sold		**471,262**	417,448
Depreciation of property, plant and equipment		**57,550**	41,473
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	*10(a), 10(b)*	**1,895**	1,276
Amortisation of other intangible assets		**153**	–
Minimum lease payments under operating leases regarding plant and machinery		**–**	2,523
Lease payments not included in the measurement of lease liabilities		**1,319**	–
Auditor's remuneration		**2,280**	2,173
Employee benefit expenses (excluding directors' remuneration):			
— Wages and salaries		**45,215**	43,355
— Pension scheme contributions		**6,435**	8,471
		51,650	51,826
Research and development costs		**40,975**	41,106
Donations		**–**	167
Foreign exchange loss, net		**1,857**	2,818
Impairment losses on financial assets — impairment of trade receivables	*12*	**1,512**	682

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2019	2018
	RMB'000	*RMB'000*
Interest on bank loans	**55,375**	45,674
Less: interest capitalised	**(2,938)**	–
	52,437	45,674
Interest on finance lease	**2,058**	4,753
Interest on lease liabilities	**206**	–
	54,701	50,427

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% (2018: 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 2019.

	2019	2018
	RMB'000	*RMB'000*
Current — PRC		
Charge for the year	**29,862**	31,437
Deferred	**3,231**	2,482
Total tax charge for the year	**33,093**	33,919

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:

	2019		2018	
	RMB'000	%	*RMB'000*	%
Profit before tax	**228,373**		235,625	
Tax at the statutory tax rate	**57,093**	**25.0**	58,906	25.0
Lower tax rate enacted by the local authority	**(23,415)**	**(10.3)**	(23,816)	(10.1)
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	**4,067**	**1.8**	4,133	1.7
Tax incentive on eligible expenditures	**(5,810)**	**(2.5)**	(6,162)	(2.6)
Tax losses not recognised	**938**	**0.4**	–	–
Expenses not deductible for tax	**220**	**0.1**	858	0.4
Tax charge at the Group's effective rate	**33,093**	**14.5**	33,919	14.4

8. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
Proposed final — RMB6.8 cents (2018: RMB7.0 cents) per ordinary share	**39,355**	40,513

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

The 2018 proposed final dividend of RMB40,513,000 was approved by the Company's shareholders at the annual general meeting on 31 May 2019 and was subsequently distributed in July 2019.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 578,750,000 (2018: 578,750,000) in issue during the year.

	2019	2018
Profit attributable to ordinary equity holders of the Company (RMB'000)	**195,294**	201,706
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)	**33.7 cents**	34.9 cents

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

10. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and machinery and leasehold land used in its operations. Lump sum payments were made upfront to acquire certain parcels of leased land with a term of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant and machinery generally have lease terms between 2 and 15 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	2018 *RMB'000*
Carrying amount at 1 January	54,519
Amortised during the year	(1,276)
Carrying amount at 31 December	53,243
Less: Current portion included in prepayments, other receivables and other assets	(1,270)
Non-current portion	51,973

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments ***RMB'000***	**Plant and machinery** ***RMB'000***	**Total** ***RMB'000***
As at 1 January 2019	**53,243**	**2,930**	**56,173**
Additions	**–**	**967**	**967**
Depreciation charge	**(1,276)**	**(619)**	**(1,895)**
As at 31 December 2019	**51,967**	**3,278**	**55,245**

Leasehold land of the Group with an aggregate carrying amount of approximately RMB51,967,000 as at 31 December 2019 (2018: RMB53,179,000) has been pledged to secure bank loans granted to the Group.

11. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**26,248**	12,113
Work in progress	**1,353,886**	1,225,093
Finished goods	**23,597**	39,296
	1,403,731	1,276,502

12. TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**257,005**	195,341
Impairment	**(2,194)**	(682)
Trade receivables	**254,811**	194,659

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:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**238,458**	187,215
3 to 6 months	**14,085**	2,870
6 months to 1 year	**1,585**	3,511
Over 1 year	**683**	1,063
	254,811	194,659

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

	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**682**	–
Impairment losses *(note 5)*	**1,512**	682
At end of year	**2,194**	682

The increase in the loss allowance of RMB1,512,000 (2018: RMB682,000) was mainly due to the increase in the past due balance of trade receivables.

13. 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:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**39,514**	77,248
3 to 6 months	**13,198**	20,661
Over 6 months	**25,875**	15,417
	78,587	113,326

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 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); and the"Top 30 Culturally Influential Enterprises of 2018 (2018老字號文化影響力企業30強) "in the 8th"Global Overall Rating List (環球總評榜)";

2. Our "Rosy Wine Vinegar (玫瑰米醋)" was listed in the first batch of "Outstanding Intangible Cultural Heritage Tourism-related Products in Zhejiang Province (浙江省優秀非遺旅游商品名單)";

3. 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; and

4. We were listed in the 9th batch of High-skilled Talents (Model Workers) Innovation Studio of Zhejiang Province (浙江省第九批高技能人才(勞模)創新工作室) by Zhejiang Federation of Trade Union (浙江省工會) and Science Technology Department (科學技術廳) of Zhejiang Province; and ranked as Grade 3A "Enterprise of Honouring Contracts and Keeping Promise" (守合同重信用企業) by Zhejiang Administration for Market Regulation (浙江省市場監督管理局) ;

5. 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 consumption by the catering channel.

After the establishment of distribution channel, catering channel and e-commerce channel (the "**New Sales Channels**") over the years, our sales channels have successfully covered 30 provinces, autonomous regions and municipalities across the country with 1,321 distributors. Sales contribution from distributors of the New Sales Channels has been expanding year by year. The sales from the New Sales Channels increased from RMB423.3 million in 2018 to RMB450.6 million in 2019, representing a growth of 6.5%.

In 2019, with the successful transformation of our New Sales Channels, the Company's marketing resources were more evenly allocated between the New Sales Channels and supermarket channels with synergy starting to emerge. The sales from supermarket channels were still able to maintain growth despite the general downward trend of the supermarket industry, with its sales amount increasing from RMB451.1 million in 2018 to RMB464.6 million in 2019, representing a 3.0% growth.

For the above reasons, for the year ended 31 December 2019, the Group recorded a revenue of RMB915.2 million (year ended 31 December 2018: RMB874.4 million), representing an increase of 4.7% as compared to the corresponding period of 2018. The profit attributable to ordinary equity holders of the Company was RMB195.3 million (year ended 31 December 2018: RMB201.7 million), representing a decrease of 3.2% as compared to the corresponding period of 2018, mainly due to the change in our product structure with an increase in the proportion of low-end products sales which led to the decline in gross profit margin.

In 2019, cooking wine, our key product, remained as the major source of our revenue, representing 67.0% of the total revenue (2018: 69.6%). With the gradual release of our production capacity of soy sauce, sales of our soy sauce products in 2019 increased by 31.1% compared with that in the corresponding period of 2018 and accounted for 21.4% of our total revenue. In view of the 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 pursue 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 upward pressure on 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; (5) higher complexity of sales policies and credit terms management due to the gradual increase in the number of our distributors ; and (6) market risk arising from the outbreak of novel coronavirus.

Financial Review

Overview

The key financial indicators of the Group are as follows:

	Year ended 31 December		Year-on-year
	2019	2018	Change
	RMB'000	*RMB'000*	%
Income statement items			
Sales	**915,170**	874,410	4.7%
Gross profit	**443,908**	456,962	(2.9%)
Profit attributable to owners of the Company	**195,294**	201,706	(3.2%)
Earnings before interest, taxes, depreciation and amortization ("**EBITDA**")	**342,533**	328,801	4.2%
Earnings per share (RMB cents) *(Note (a))*	**33.7**	34.9	(3.4%)
Selected financial ratios			
Gross profit margin (%)	**48.5%**	52.3%	(7.3%)
Net profit margin (%)	**21.3%**	23.1%	(7.8%)
EBITDA margin *(%)*	**37.4%**	37.6%	(0.5%)
Return on equity holders' equity *(%)*	**8.3%**	9.2%	(9.8%)
Gearing ratio *(Note (b))*	**31.8%**	33.0%	(3.6%)

Notes:

(a) Please refer to Note 9 to the 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 2019. 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 non-current liabilities.

Revenue

The revenue of the Group increased by 4.7% from RMB874.4 million in 2018 to RMB915.2 million in 2019, primarily attributable to the growth brought by the further development of the New Sales Channels and the synergy effect from diversified channels.

Revenue from cooking wine products increased by 0.7% from RMB608.8 million in 2018 to RMB613.0 million in 2019, primarily due to the combined effect of the increase in the sales volume of low-end cooking wine products arising from the Group's persistent enhancement on the market penetration of New Sales Channels and the decrease in sales volume from mid-end and high-end cooking wine as a result of economic decline.

Revenue from the Group's soy sauce products increased by 31.1%, from RMB149.5 million in 2018 to RMB196.0 million in 2019. This mainly reflects additional sales brought forth by our expansion of production capacity of soy sauce products.

Revenue from the Group's rice vinegar products remained stable and increased by 1.4% from RMB73.3 million in 2018 to RMB74.4 million in 2019.

While introducing new products to the market, we have also adjusted our product portfolio of other products by reducing the production volume of low-performing products this year. As a result, the revenue from the Group's other products decreased by 25.7% from RMB42.8 million in 2018 to RMB31.8 million in 2019.

Cost of Sales

Our cost of sales increased by 12.9% from RMB417.4 million in 2018 to RMB471.3 million in 2019. 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

Our gross profit decreased by 2.9% from RMB457.0 million in 2018 to RMB443.9 million in 2019. The gross profit margin decreased from 52.3% in 2018 to 48.5% in 2019, primarily due to the combined effect of rising prices for packaging materials and an increase in the proportion of sales from low-end products.

Other Income and Gains

Other income and gains increased by 32.4% from RMB11.7 million in 2018 to RMB15.4 million in 2019. Other income and gains primarily include subsidies received, gains from sales of materials and interest income. The increase in other income and gains was primarily due to the increase in government subsidies received.

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 RMB102.6 million in 2018 to RMB96.1 million in 2019, and the distribution expenses as a percentage of the Group's revenue decreased from 11.7% in 2018 to 10.5% in 2019, primarily due to 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 to stay competitive in unfavorable market environment.

Administrative Expenses

The administrative expenses increased by 2.6% from RMB74.7 million in 2018 to RMB76.7 million in 2019. The increase in administrative expenses was due to the increase in salary of the Group's management personnel.

Finance Costs

Finance costs increased by 8.5% from RMB50.4 million in 2018 to RMB54.7 million in 2019. The increase in finance costs primarily reflected the increase in interest expenses from RMB50.4 million in 2018 to RMB54.7 million in 2019 as a result of an increase in the lending rate.

Profit before Tax

Due to the aforesaid reasons, the profit before tax decreased by 3.1% from RMB235.6 million in 2018 to RMB228.4 million in 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, 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 "Advanced and New Technology Enterprise" status and were entitled to the preferential tax rate of 15% for three consecutive years commencing from 2019, which remained stable as compared to that of 2018 (2018: 15%).

Income tax expense decreased by 2.4% from RMB33.9 million in 2018 to RMB33.1 million in 2019, mainly due to the decrease in profit before tax.

Profit Attributable to Owners of the Company

Profit attributable to ordinary equity holders of the Company decreased by 3.2% from RMB201.7 million in 2018 to RMB195.3 million in 2019, which is mainly attributable to the decrease in net profit as a result of the aforesaid reasons.

Earnings per Share Attributable to Ordinary Equity Holders of the Company

Basic earnings per share decreased from RMB34.9 cents in 2018 to RMB33.7 cents in 2019. The decrease in earnings per share was attributable to the decrease in profit attributable to ordinary equity holders of the Company.

Net Profit Margin

Net profit margin dropped by 1.8 percentage points from 23.1% in 2018 to 21.3% in 2019, which was mainly attributable to the decrease in gross profit margin as a result of the aforesaid reasons.

FINANCIAL AND LIQUIDITY POSITION

Prepayments

Details of the Group's prepayments as at 31 December 2019 and 2018 are as follows:

	Notes	**2019** **RMB'000**	2018 RMB'000
Prepayments for fixed assets	*(i)*	**315,345**	415,746
Prepayments for procurements of condiment products	*(ii)*	**68,567**	100,000
Prepayments for procurements of raw materials	*(iii)*	**128,465**	83,220
Other prepayments		**4,965**	4,394
		517,342	603,360
Less: Portion classify as non-current assets		**(345,570)**	(415,746)
Current portion included in prepayments, other receivables and other assets		**171,772**	187,614

Notes:

(i) Prepayments for fixed assets includes (1) prepayment for the construction of Phase II plant premise amounting to RMB238 million. In the view of the Directors, the construction is expected to commence the second quarter of 2020; and (2) prepayment for the associating production equipment for the Phase II plant premise amounting to RMB77.3 million. The Directors expect to receive the equipment upon completion of the plant premise construction.

The directors estimated that RMB165,577,000 and RMB149,768,000 of the prepayments for fixed assets would be settled in periods of 12 months and 24 months upon commencement of the corresponding construction/installation projects, respectively. Prepayments for fixed assets decreased by 24.1% from RMB415.7 million as at 31 December 2018 to RMB315.3 million as at 31 December 2019. The decrease in prepayments for fixed assets was mainly attributable to the transfer of prepayment to construction in progress as a result of receipt of certain equipment during the year.

(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 Province Branch.

RMB38,342,000 and RMB30,225,000 of prepayments for procurements of condiment products would be settled in periods 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.

Trade receivables

Trade receivables increased from RMB194.7 million as at 31 December 2018 to RMB254.8 million as at 31 December 2019 and the turnover days of trade receivables increased from 67 days in 2018 to 88 days in 2019, mainly reflecting the fact that the Group granted more favorable credit terms with creditworthy distributors to build up long term business relationship under current economic downturn. Details of the ageing analysis of trade receivables are set out in Note 12 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 RMB1,276.5 million as at 31 December 2018 to RMB1,403.7 million as at 31 December 2019, 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 sales growth in the future.

We regularly monitor the inventory level maintained by our distributors. Our sales representatives maintain frequent telephone or email communications with 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 at least 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 2019, our inventories with a carrying amount of RMB682.3 million (31 December 2018: RMB703.4 million) were pledged as floating charge to secure general banking facilities granted to us.

Borrowings

As at 31 December 2019, our total borrowings amounted to RMB1,024.8 million (31 December 2018: RMB1,030.7 million), including finance lease payables with a carrying amount of RMB28.0 million (31 December 2018: RMB62.6 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 2019, the Group's bank loans amounting to approximately RMB466.5 million were not in compliance with certain financial loan covenants. 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 2019, the Group was not engaged in hedging activities for managing foreign exchange rate risk.

Liquidity and Financial Resources

As at 31 December 2019, we had cash and cash equivalents of RMB410.1 million (31 December 2018: RMB345.2 million). As at 31 December 2019, we had interest-bearing bank and other borrowings of an aggregate amount of RMB1,024.8 million (31 December 2018: RMB1,030.7 million), which were denominated in RMB with interest rates from 4.35% to 7.97% 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 31.8% as at 31 December 2019, representing a decrease of 1.2 percentage points over 2018.

The gearing ratio is based on net debt divided by total equity and net debt as at 31 December 2019. 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 2019 amounted to RMB121.3 million (31 December 2018: RMB133.3 million), which was mainly related to the construction projects for expansion of plant and increase of machinery.

CONTINGENT LIABILITIES

As at 31 December 2019, we did not have any material contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2019, our inventories with a carrying amount of RMB682.3 million, property, plant and equipment with a carrying amount of RMB317.8 million, leasehold land with a carrying amount of RMB52.0 million, and deposits with a carrying amount of RMB67.0 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 2019.

FUTURE PROSPECTS

The pandemic brought by outbreak of novel coronavirus has worsened the already severe domestic and international economic situation, and raises the public concern about the global economic outlook. For the condiment consumer industry, the most direct impact of the outbreak of the pandemic is the sharp decline in consumption in the catering industry and the increase in the proportion of household consumption. The increase in household consumption would gradually raise the sales volume from the supermarket channel, so the supermarket channel that contributes more than half of our sales is expected to grow to a certain extent in the future. As we rely on small and medium-scale distributors who are more exposed to risks for retailing our products in distribution channel and catering channel, the pandemic will have certain adverse effects on our established distribution channel and the catering channel still under development.

It is expected that the catering industry would enjoy rebounding consumption after the pandemic and recover quickly. We believe that the catering market will still continue to be the major market for condiment consumption. In order to better expand into the catering market, we launched more new products with a better value-for-money and suitable for catering market in 2019, such as 1.75L Lao Heng He Yellow Wine (1.75L老恒和黃酒), 1.75L Lao Heng He Cooking Wine (1.75L老恒和料酒), which are popular in the market. We expect to continue to increase our investment in the catering channel, so as to gain greater market share.

As for the cooking wine market, we believe that the cooking wine market would be more regulated as a result of the implementation of the standards applicable to brewing cooking wine, and pure brewing cooking wine products will differentiate itself from the existing inferior products in the market in terms of quality, and the superiority of our products in terms of raw materials, years and wine quality will make our Company unique. The cooking wine market has entered a stage of rapid development with both volume and price, during which, enterprises with leading brands in the cooking wine industry become more advantageous in terms of technology, capital, market reputation and risk resistance capacity compared to small individual businesses. With the deepening of food safety and environmental protection measures, leading brands in the cooking wine industry will gain more market shares. Intelligent enterprise production, product sophistication and category diversification will be the main development direction of brand enterprises.

As the trend prevails, our "Lao Heng He" brand products with excellent brand recognition, modern traditional craftsmanship, advanced quality control system and perfect product research and development system will gain more market shares. We see product quality and technical content as our core competitiveness, and strive to stand out in the market amid fierce competition with outstanding 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 grow in China.

GOALS AND STRATEGIES

Against the backdrop of keen competition and thriving development in the condiment market, we will continue to pursue the "Diversification" strategy, concentrating our investment and resources on New Sales Channels and product supply. 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 and our strategy of diversifying sales channels. On one hand, we will further increase the input in establishing the marketing team and staff training. On the other hand, we will enrich the product structure of the Company and offer a variety of high-quality products to cater for 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 will 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)), and sponsoring a variety of food fairs such as International Cuisine Culture Exposition of Nanxun Ancient Town, China* (中國南潯古鎮國際美食文化博覽會), more chefs will be able to understand and recognise our products, thereby expanding our catering channels and promoting the sales of our catering products. On the other hand, we have set up a sales team for catering channel, and developed specialised catering distributors on our own, and organised interactive marketing activities targeting catering outlets in several cities.

We also actively build our internet sales platform and embrace "New Retail". By engaging internet live-streaming celebrities and filming TikTok clips, etc., our promotion has fully covered our market with various means. On the other hand, we also strive to activate the linkage of social e-commerce and the community and create a community distribution model for all shopping guides.

We always pay close attention to and actively address any risks that may arise from growth. In 2019, we continued to upgrade the digitalised management system and officially launched an ERP system which would enhance our control over our business processes and timely response to the handling of information. Facing the outbreak of the pandemic, we would enhance our control over our management of credit risks so as to address the increasing credit risk brought by our distributors and the additional management complexity. We will continue to build an information sharing platform to strengthen internal communication in response to the negative impact on sales and distributors caused by the difference in pricing policy in different locations that leads to cross-sales of products to other exclusively-authorised distribution areas.

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

MATERIAL EVENTS AFTER THE REPORTING PERIOD

Impact of new coronavirus pneumonia epidemic

The outbreak of the novel coronavirus ("**COVID-19**") since January 2020 in Mainland China have brought disruptions to the Group's operation. The consequential precautionary and control measures released by the local government and authorities have temporarily stunt the logistics activities across the country which has once stagnated the Group's supply chain and delivery.

The Group's production has been gradually resumed from February 2020. And the extent of pandemic prevention and control measures have seen gradually released responding to the request from the local government. However, given the dynamic nature of the circumstances and the uncertainty of the duration of the pandemic and the situation of pandemic preventive measures, up to the date of the announcement, the assessment of the related impact on the Group is still in progress.

EMPLOYEES

As at 31 December 2019, we had 538 full-time employees (31 December 2018: 605). 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 2019 (31 December 2018: 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 2019.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB6.8 cents per ordinary share for the year ended 31 December 2019 to the shareholders whose names appear on the register of members of the Company on 19 June 2020 (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 or around 5 June 2020 (the "**2020 AGM**"), the Proposed Final Dividend is expected to be paid on or about 15 July 2020.

CLOSURE OF REGISTER OF MEMBERS FOR 2020 AGM

For the purpose of determining the rights to attend and vote at the 2020 AGM, the register of members of the Company will be closed from 2 June 2020 to 5 June 2020 (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 2020 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 1 June 2020.

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 2020 AGM. For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from 16 June 2020 to 19 June 2020 (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 15 June 2020.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company 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 2019, except for the deviations summarised 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 2019. 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 2019.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee (which comprises non-executive Director, namely Mr. He Yuanchuan, 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 2019, 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 2020, which is subject to the approval of the shareholders of the Company at the 2020 AGM.

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 2019 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 2020.

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, 31 March 2020

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 He Yuanchuan; and the independent non-executive Directors of the Company are Shen Zhenchang, Ng Wing Fai and Sun Jiong.