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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 2020**

#### **FINANCIAL HIGHLIGHTS**

- Revenue for the six months ended 30 June 2020 amounted to approximately RMB299.7 million, representing a decrease of 25.5% from approximately RMB402.2 million for the corresponding period of 2019.
- Gross profit for the six months ended 30 June 2020 amounted to approximately RMB136.8 million, representing a decrease of 33.7% from approximately RMB206.2 million for the corresponding period of 2019.
- Profit attributable to owners of the Company for the six months ended 30 June 2020 amounted to approximately RMB42.3 million, representing a decrease of 57.4% from approximately RMB99.3 million for the corresponding period of 2019.
- The Board does not recommend the payment of interim dividends for the six months ended 30 June 2020 (six months ended 30 June 2019: 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 2020, together with the comparative figures for the corresponding period of 2019 as follows:

## **INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

*For the six months ended 30 June 2020*

		<b>Six months ended 30 June</b>	
		<b>2020</b>	<b>2019</b>
		<b>RMB'000</b>	<b>RMB'000</b>
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>REVENUE</b>	4	<b>299,678</b>	402,218
Cost of sales		<u><b>(162,865)</b></u>	<u>(195,992)</u>
Gross profit		<b>136,813</b>	206,226
Other income and gains	4	<b>8,722</b>	7,509
Selling and distribution expenses		<b>(28,873)</b>	(32,465)
Administrative expenses		<b>(33,338)</b>	(35,242)
(Impairment losses)/reversal of impairment losses of financial assets	5	<b>(1,285)</b>	243
Other expenses		<b>(1,966)</b>	(405)
Finance costs	6	<u><b>(31,679)</b></u>	<u>(28,590)</u>
<b>PROFIT BEFORE TAX</b>	5	<b>48,394</b>	117,276
Income tax expense	7	<u><b>(6,059)</b></u>	<u>(17,937)</u>
<b>PROFIT FOR THE PERIOD</b>		<u><b>42,335</b></u>	<u>99,339</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic and diluted	8	<u><b>RMB7.3 cents</b></u>	<u>RMB17.2 cents</u>

# **INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the six months ended 30 June 2020*

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>PROFIT FOR THE PERIOD</b>	<b><u>42,335</u></b>	<b><u>99,339</u></b>
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</b>		
Exchange differences:		
Exchange differences on translation of foreign operations	<u>2,732</u>	<u>573</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b><u>45,067</u></b>	<b><u>99,912</u></b>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**30 June 2020**

		<b>30 June 2020</b>	31 December 2019
		<b>RMB'000</b>	<b>RMB'000</b>
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	<b>1,039,430</b>	1,061,878
Right-of-use assets		<b>54,245</b>	55,245
Other intangible assets		<b>1,078</b>	1,045
Prepayments for items of property, plant and equipment	13	<b>348,706</b>	345,570
Deferred tax assets		<b>6,974</b>	4,741
<b>Total non-current assets</b>		<b>1,450,433</b>	1,468,479
<b>CURRENT ASSETS</b>			
Inventories	11	<b>1,500,334</b>	1,403,731
Trade receivables	12	<b>259,809</b>	254,811
Prepayments, other receivables and other assets	13	<b>321,540</b>	378,953
Pledged deposits	14	<b>–</b>	67,039
Cash and cash equivalents	14	<b>460,368</b>	410,107
<b>Total current assets</b>		<b>2,542,051</b>	2,514,641
<b>CURRENT LIABILITIES</b>			
Trade payables	15	<b>76,536</b>	78,587
Other payables and accruals	16	<b>342,783</b>	269,938
Interest-bearing bank and other borrowings	17	<b>835,681</b>	917,147
Lease liabilities	17	<b>511</b>	994
Tax payable		<b>88,527</b>	81,067
<b>Total current liabilities</b>		<b>1,344,038</b>	1,347,733
<b>NET CURRENT ASSETS</b>		<b>1,198,013</b>	1,166,908
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,648,446</b>	2,635,387

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**(continued)**  
30 June 2020

		<b>30 June 2020</b>	31 December 2019
		<b>RMB'000</b>	<b>RMB'000</b>
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	17	<b>110,519</b>	103,827
Lease liabilities	17	<b>2,705</b>	2,846
Other long term liabilities	18	<b>136,912</b>	136,948
Deferred tax liabilities		<b>31,624</b>	30,792
		<hr/>	<hr/>
Total non-current liabilities		<b>281,760</b>	274,413
		<hr/>	<hr/>
Net assets		<b>2,366,686</b>	2,360,974
		<hr/>	<hr/>
<b>EQUITY</b>			
Share capital	19	<b>1,767</b>	1,767
Reserves		<b>2,364,919</b>	2,359,207
		<hr/>	<hr/>
Total equity		<b>2,366,686</b>	2,360,974
		<hr/>	<hr/>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
*For the six months ended 30 June 2020*

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2020 (Unaudited)	1,767	856,556	(1,000)	7,003	24,262	19,186	1,453,200	2,360,974
Profit for the period	-	-	-	-	-	-	42,335	42,335
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	2,732	-	2,732
Total comprehensive income for the period	-	-	-	-	-	2,732	42,335	45,067
Final 2019 dividend declared (note 9)	-	(39,355)	-	-	-	-	-	(39,355)
At 30 June 2020 (Unaudited)	<u>1,767</u>	<u>817,201</u>	<u>(1,000)</u>	<u>7,003</u>	<u>24,262</u>	<u>21,918</u>	<u>1,495,535</u>	<u>2,366,686</u>

*For the six months ended 30 June 2019*

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 31 December 2018 (Audited)	1,767	897,069	(1,000)	7,003	24,262	16,616	1,258,213	2,203,930
Effect of adoption of IFRS 16	-	-	-	-	-	-	(307)	(307)
At 1 January 2019 (Restated/unaudited)	1,767	897,069	(1,000)	7,003	24,262	16,616	1,257,906	2,203,623
Profit for the period	-	-	-	-	-	-	99,339	99,339
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	573	-	573
Total comprehensive income for the period	-	-	-	-	-	573	99,339	99,912
Final 2018 dividend declared	-	(40,513)	-	-	-	-	-	(40,513)
At 30 June 2019 (Unaudited)	<u>1,767</u>	<u>856,556</u>	<u>(1,000)</u>	<u>7,003</u>	<u>24,262</u>	<u>17,189</u>	<u>1,357,245</u>	<u>2,263,022</u>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
Notes		(Unaudited)	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
		<b>48,394</b>	117,276
Profit before tax			
Adjustments for:			
Finance costs	6	<b>31,679</b>	28,590
Interest income	4	<b>(3,186)</b>	(1,472)
Depreciation	5	<b>30,753</b>	31,935
Depreciation of right-of-use assets	5	<b>1,000</b>	833
Amortisation of intangible assets	5	<b>126</b>	79
Impairment losses/(reversal of impairment losses) of financial assets	5	<b>1,285</b>	(243)
		<b>110,051</b>	176,998
Increase in inventories		<b>(96,603)</b>	(9,263)
Increase in trade receivables		<b>(6,283)</b>	(22,163)
Decrease/(increase) in prepayments, deposits and other receivables		<b>45,310</b>	(57,385)
Decrease in trade payables		<b>(2,051)</b>	(11,998)
Increase in other payables and accruals		<b>33,008</b>	37,429
Decrease in other long term liabilities		<b>(36)</b>	(59)
		<b>83,396</b>	113,559
Cash from operations			
Interest received		<b>3,186</b>	1,472
Interest paid		<b>(88)</b>	–
Interest element of finance lease rental payments		<b>(777)</b>	(4,694)
Income tax paid		<b>–</b>	(771)
		<b>85,717</b>	109,566
Net cash flows from operating activities			

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(continued)**

*For the six months ended 30 June 2020*

		<b>Six months ended 30 June</b>	
		<b>2020</b>	<b>2019</b>
		<b>RMB'000</b>	<b>RMB'000</b>
	<i>Note</i>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Net cash flows from operating activities		<u><b>85,717</b></u>	<u>109,566</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		<b>(5,636)</b>	(1,664)
Additions to intangible assets		<b>(159)</b>	(784)
Decrease in pledged deposits		<u><b>67,039</b></u>	<u>1,269</u>
Net cash flows from/(used in) investing activities		<u><b>61,244</b></u>	<u>(1,179)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Addition in interest-bearing bank and other borrowings		<b>351,885</b>	390,040
Repayment of interest-bearing bank and other borrowings		<b>(409,536)</b>	(295,147)
Return of secured deposit placed for sales and leaseback transactions		<b>6,780</b>	–
Principal portion of lease payments/finance lease rental payments		<b>(17,747)</b>	(16,433)
Interest paid		<u><b>(30,814)</b></u>	<u>(23,807)</u>
Net cash flows (used in)/from financing activities		<u><b>(99,432)</b></u>	<u>54,653</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>47,529</b>	163,040
Cash and cash equivalents at beginning of the period		<b>410,107</b>	345,188
Effect of foreign exchange rate changes, net		<u><b>2,732</b></u>	<u>573</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>14</b>	<u><u><b>460,368</b></u></u>	<u><u>508,801</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	<b>14</b>	<u><u><b>460,368</b></u></u>	<u><u>508,801</u></u>



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

## 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 (“**Key Shine**”), which was incorporated in the British Virgin Islands (“**BVI**”).

The Company is an investment holding company. During the six months ended 30 June 2020, 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 2020 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 2019.

### 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 2019, except for the adoption of the following revised standards and interpretations for the first time for the current period’s financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The new and revised HKFRSs do not have material impact on the unaudited interim condensed consolidated financial statements of the Group.

### 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 2020 is set out in the following table:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Customer X	37,800	45,953
Customer Y	34,263	42,825
	<u>72,063</u>	<u>88,778</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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
<i>Revenue from contracts with customers</i>		
Sale of goods	<u>299,678</u>	<u>402,218</u>

## Revenue from contracts with customers

### (i) Disaggregated revenue information

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>Type of goods</b>		
Condiment products	<u>299,678</u>	<u>402,218</u>
<b>Timing of revenue recognition</b>		
Goods transferred at a point in time	<u>299,678</u>	<u>402,218</u>

### (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.

#### *Other income and gains*

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Subsidy received	4,893	5,764
Interest income	3,186	1,472
Gain from sale of materials	557	187
Rental income	<u>86</u>	<u>86</u>
	<u>8,722</u>	<u>7,509</u>

## 5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold	162,865	195,992
Depreciation	30,753	31,935
Depreciation of right-of-use assets	1,000	833
Amortisation of intangible assets	126	79
Lease payments not included in the measurement of lease liabilities	–	1,277
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	18,835	22,330
Pension scheme contributions	1,498	1,845
	<u>19,750</u>	<u>23,698</u>
Foreign exchange loss, net	1,663	407
Donations	55	–
Research and development costs	17,420	17,987
(Impairment losses)/reversal of impairment losses of financial assets	<u>1,285</u>	<u>(243)</u>

## 6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on bank loans and other borrowings	30,814	26,388
Interest on finance leases	777	2,113
Interest on lease liabilities	88	89
	<u>31,679</u>	<u>28,590</u>

## 7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current- PRC		
Charge for the period	7,460	16,096
Deferred	<u>(1,401)</u>	<u>1,841</u>
Tax charge for the period	<u>6,059</u>	<u>17,937</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 2019: 578,750,000) in issue during the six months ended 30 June 2020.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity holders of the Company ( <i>RMB'000</i> )	<u>42,335</u>	<u>99,339</u>
Weighted average number of ordinary shares in issue ( <i>in thousands</i> )	<u>578,750</u>	<u>578,750</u>
Earnings per share attributable to ordinary equity holders of the Company — Basic and diluted ( <i>RMB cents</i> )	<u>7.3</u>	<u>17.2</u>

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30 June 2020 and 2019 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 2020.

The proposed 2019 final dividend of RMB6.80 cents per share, totalling RMB39,355,000, was approved by the Company's shareholders at the annual general meeting on 29 June 2020. It was recorded in "other payables and accruals" in the interim condensed consolidated statement of financial position and was subsequently distributed in August 2020.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group purchased property, plant and equipment with an aggregate cost of RMB8,305,000 (six months ended 30 June 2019: RMB21,591,000).

## 11. INVENTORIES

	30 June 2020	31 December 2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Raw materials	20,478	26,248
Work in progress	1,463,744	1,353,886
Finished goods	<u>16,112</u>	<u>23,597</u>
Total inventories	<u>1,500,334</u>	<u>1,403,731</u>

## 12. TRADE RECEIVABLES

	<b>30 June 2020 RMB'000 (Unaudited)</b>	<b>31 December 2019 RMB'000 (Audited)</b>
Trade receivables	<b>263,288</b>	257,005
Impairment	<b>(3,479)</b>	(2,194)
	<hr/>	<hr/>
Trade receivables	<b>259,809</b>	254,811
	<hr/>	<hr/>

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

	<b>30 June 2020 RMB'000 (Unaudited)</b>	<b>31 December 2019 RMB'000 (Audited)</b>
Within 3 months	<b>236,445</b>	238,458
3 to 6 months	<b>6,212</b>	14,085
6 months to 1 year	<b>17,146</b>	1,585
Over 1 year	<b>6</b>	683
	<hr/>	<hr/>
Total	<b>259,809</b>	254,811
	<hr/>	<hr/>

### 13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2020 <i>RMB'000</i> (Unaudited)	31 December 2019 <i>RMB'000</i> (Audited)
Prepayments ( <i>note</i> )	471,585	517,342
Value-added tax recoverable	154,879	165,288
Deposits and other receivables	43,782	41,893
	<b>670,246</b>	724,523
Less:		
Portion classified as non-current assets	<b>(348,706)</b>	(345,570)
Current portion included in prepayments, other receivables and other assets	<b>321,540</b>	378,953

*Note:*

Details of prepayments as at 30 June 2020 and 31 December 2019 are as follows:

		30 June 2020 <i>RMB'000</i> (Unaudited)	31 December 2019 <i>RMB'000</i> (Audited)
	<i>notes</i>		
Prepayments for fixed assets	(i)	313,157	315,345
Prepayments for procurements of condiment products	(ii)	66,221	68,567
Prepayments for procurements of raw materials	(iii)	89,564	128,465
Other prepayments		2,643	4,965
		<b>471,585</b>	517,342

- (i) Prepayments for fixed assets include i) prepayment for the construction of Phase II plant premise amounting to RMB203.6 million; and ii) prepayment for the production equipment for the Phase II premise amounting to RMB109.6 million.
- (ii) Prepayments for procurements of condiment products primarily included prepayments for procurements of condiment products from an independent third party manufacturer under a poverty alleviation program led by China Development Bank Zhejiang Branch.
- (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.

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

	<b>30 June 2020 RMB'000 (Unaudited)</b>	<b>31 December 2019 RMB'000 (Audited)</b>
Cash and bank balances	<b>460,368</b>	410,107
Time deposits	<u>–</u>	<u>67,039</u>
	<b>460,368</b>	<b>477,146</b>
Less:		
Pledged for bank loans	<u>–</u>	<u>(67,039)</u>
Cash and cash equivalents	<b>460,368</b>	<b>410,107</b>
Cash and cash equivalents are denominated in:		
RMB	<b>459,286</b>	409,241
Hong Kong Dollar (HK\$)	<b>667</b>	676
USD	<b>415</b>	190
Cash and cash equivalents	<b>460,368</b>	<b>410,107</b>

#### 15. TRADE PAYABLES

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

	<b>30 June 2020 RMB'000 (Unaudited)</b>	<b>31 December 2019 RMB'000 (Audited)</b>
Within 3 months	<b>27,536</b>	39,514
3 to 6 months	<b>13,790</b>	13,198
Over 6 months	<b>35,210</b>	25,875
	<b>76,536</b>	<b>78,587</b>

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

		<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
	<i>Notes</i>		
Contract liabilities	(a)	<b>7,462</b>	6,727
Other tax payables		<b>193,021</b>	166,260
Other payables and accruals	(b)	<b>109,632</b>	60,723
Due to the ultimate holding company	21(b)	<b>22,392</b>	22,002
Salary payables		<b>10,276</b>	14,226
		<b>342,783</b>	269,938

*Notes:*

(a) Details of contract liabilities are as follows:

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
<i>Short-term advances received from customers</i>		
Sale of goods	<b>7,462</b>	6,727

(b) Other payables are non-interest-bearing and have an average term of three months.

## 17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB'000</i>	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB'000</i>
<b>Current</b>						
Lease liabilities	4.75–4.90	2021	511	4.75–4.90	2020	994
Bank loans — secured	5.00–6.00	on demand	245,000	4.35–6.09	on demand	466,540
Bank loans — secured	4.79–5.87	2021	443,650	4.79–5.87	2020	391,210
Other borrowing — secured	6.74–13.11	2021	136,192	–	–	–
Other borrowing — unsecured	–	–	–	6.74–7.97	2020	31,435
Finance lease payables	6.74	2021	10,839	6.74	2020	27,962
			<u>836,192</u>			<u>918,141</u>
<b>Non-current</b>						
Lease liabilities	4.75–4.90	2022–2029	2,705	4.75–4.90	2021–2029	2,846
Bank loans — secured	5.23	2021	20,000	5.23	2021	52,000
Other borrowing — secured	6.74–13.11	2023	90,519	–	–	–
Other borrowing — unsecured	–	–	–	6.74–7.97	2020	51,827
			<u>113,224</u>			<u>106,673</u>
<b>Total</b>			<u><u>949,416</u></u>			<u><u>1,024,814</u></u>

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

	Carrying values	
	30 June 2020 <i>RMB'000</i> (Unaudited)	31 December 2019 <i>RMB'000</i> (Audited)
Property, plant, and equipment	449,677	317,838
Right-of-use assets	51,384	51,967
Inventories	641,423	682,279
Pledged deposits	–	67,039
	<u>1,142,484</u>	<u>1,119,123</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 21(d)).
- (c) As at 30 June 2020, the Group's bank loans amounting to approximately RMB245,000,000 (31 December 2019: RMB466,540,000) were not in compliance with certain financial loan covenants. The maturity of the aforesaid bank loans as at 30 June 2020 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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
	Note		
Other long term payables	(a)	133,000	133,000
Special payables		3,912	3,948
		<u>136,912</u>	<u>136,948</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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Amounts repayable:		
1 to 5 years	<u>133,000</u>	<u>133,000</u>

## 19. SHARE CAPITAL

### Shares

	<b>30 June 2020 RMB'000 (Unaudited)</b>	<b>31 December 2019 RMB'000 (Audited)</b>
Authorised:		
1,000,000,000 ordinary shares of US\$0.0005 (RMB0.00305) each	<u><b>3,050</b></u>	<u>3,050</u>
Issued and fully paid:		
578,750,000 ordinary shares of US\$0.0005 (RMB0.00305) each	<u><b>1,767</b></u>	<u>1,767</u>

## 20. COMMITMENTS

The Group had capital commitments as follows:

	<b>30 June 2020 RMB'000 (Unaudited)</b>	<b>31 December 2019 RMB'000 (Audited)</b>
Contracted, but not provided for:		
Plant and machinery	<u><b>44,136</b></u>	<u>46,361</u>
Building	<u><b>74,591</b></u>	<u>74,945</u>
	<u><b>118,727</b></u>	<u>121,306</u>

## 21. 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
Mr. Chen Jinhao	Son of Mr. Chen Weizhong
Zhejiang Zhongwei Brewery Limited	Company significantly influenced by Mr. Chen Jinhao, son of Mr. Chen Weizhong
Key Shine	The Company's ultimate holding company

### (b) In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the six months ended 30 June 2020:

- (i) Certain advances with maximum amount outstanding of RMB1,220,000 during the six months ended 30 June 2020 were made to Zhejiang Zhongwei Brewery Limited, which had been fully settled by the end of the reporting period.
- (ii) As at 30 June 2020, the Group's balance with Key Shine was RMB22,392,000, which were unsecured, interest free and repayable on demand. During the year ended 31 December 2019, the Group's maximum amount outstanding with Key Shine was RMB22,392,000.

### (c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	295	293
Pension scheme contributions	12	40
Total compensation paid to key management personnel	307	333

### (d) Provision of guarantees by related parties:

	30 June	31 December
	2020	2019
	RMB'000	RMB'000
<b>Bank loans guaranteed by:</b>		
Mr. Chen Weizhong, Mr. Chen Weidong and Ms. Xing Liyu	70,000	70,000
Mr. Chen Weizhong and Ms. Xing Liyu	439,650	589,850
Zhejiang Zhongwei Brewery Limited	55,000	55,000
Mr. Chen Weizhong, Ms. Xing Liyu and Zhejiang Zhongwei Brewery Limited	–	20,000
Mr. Chen Weizhong, Ms. Xing Liyu, Mr. Chen Jinhao and Zhejiang Zhongwei Brewery Limited	50,000	55,000
Mr. Chen Weizhong, Ms. Xing Liyu and Mr. Chen Jinhao	34,000	–
	648,650	789,850

## 22. CONTINGENCIES

On 6 December 2019, the Company received a writ of summons by Natural Seasoning International (HK) Limited (the “**Plaintiff**”) against, among others, the Company, Mr. Chen Weizhong and Key Shine as defendants, on the ground that Key Shine and Mr. Chen Weizhong have been in breach of certain agreements in relation to, among others, the operation of the Company and restrictions on disposal of shares in the Company (the “**Litigation**”). Details of the Litigation were set out in the announcement of the Company dated 16 December 2019.

Subject to receipt of further evidences or details of claim from the Plaintiff; and after having taken into account, amongst other factors, the fact that the Company is not a party to the agreements leading to the Litigation, the Company does not consider that the Litigation will have any material adverse impact on the business and/or operations of the Group and accordingly have not made any provision for any claim arising from the Litigation, other than the related legal and other costs.

## 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 the first half of 2020, we attained the following achievements:

1. We were awarded the “2019 Excellent Cultural Inheritance Enterprise (2019年度優秀文化傳承企業)” by Zhejiang Time-Honored Enterprises Association (浙江省老字號企業協會);
2. We were awarded the “Model Enterprise for the Construction of Integrity Management System in the Food Industry of Zhejiang Province (浙江省食品工業企業誠信管理體系建設示範企業)” by the Zhejiang Food Organization (浙江省食品工業協會);
3. According to the analysis and statistics on the offline market by “FMCG Annual Guide Magazine (快消品年度指南雜誌)”, our cooking wine products have always maintained a relatively high market share of over 12%; and
4. According to the data published by the China Condiment Association in the “Top 100 Chinese Condiment Renowned Brands (中國調味品著名品牌企業100強)”, sales volume and growth rate of our cooking wine products have remained on top in the industry for six consecutive years.

As condiment products related to people's livelihood are daily necessities, their market condition remained stable in spite of the outbreak of the novel coronavirus (COVID-19) pandemic in the first half of 2020. While adhering to prevention and control amid the pandemic, the Group actively adapted to changes in the market. By upholding its fundamental principle of “focusing on traditional cooking wine industry and refining other industries”, the Group promoted its marketing reform and project construction in an orderly manner centering around the sales target set at the beginning of the year.

In the first half of 2020, the Group achieved a sales revenue of approximately RMB299.7 million, representing a decrease of approximately RMB102.5 million or around 25.5% from the same period in 2019. On one hand, the decline in social activities, traffic control and the suspension of upstream and downstream enterprises caused by the pandemic have affected the production and sales activities of the Group's products, leading to a decrease of approximately RMB108.2 million or around 27.3% in the supermarket and distribution channels as well as the catering channels under development of the Group as compared with the same period in 2019. On the other hand, due to the consumers' shift to online consumption patterns during the pandemic period, the sales of e-commerce channels directly benefited from the growth of household consumption. The sales of the Group's e-commerce channels increased by approximately RMB5.7 million or around 98.8% as compared to the same period in 2019. The sales performance of the Group's sales channels began to show a gradual improvement in the second quarter.

In the first half of 2020, cooking wine products remained as the major source of our revenue, accounting for approximately 67.8% of our total revenue. In addition, with the gradual release of our production capacity of soy sauce, sales of our soy sauce products in the first half of 2020 were approximately RMB59.8 million, accounting for approximately 19.9% of our total revenue. In terms of market strategy, we continued the market penetration strategy being implemented in 2019 with an aim to cope with the adverse impact of the pandemic on the business environment by strengthening our distribution network. We have maintained the number of distributors at approximately 1,250, and fully extended the network to cover fourth- and fifth-tier cities in 30 provinces, autonomous regions and municipalities across the country. In order to cope with the aforementioned market penetration strategy and to deal with the adverse effects of the pandemic, the Group adjusted its product structure to increase the proportion of sales of mid-end and low-end products with relatively lower gross profit margins. As a result, the gross profit margin of the Group's products decreased from 51.3% as of 30 June 2019 to 45.7% as of 30 June 2020.

The profit attributable to ordinary equity holders of the parent company of the Group was approximately RMB42.3 million (30 June 2019: RMB99.3 million), representing a decrease of approximately 57.4% as compared to the corresponding period of 2019, mainly due to the impact of the aforementioned decline in revenue and gross profit. In view of the growing demand of our customers and the anticipated sales growth of soy sauce, rice vinegar and fermented bean curd products brought by the further development of the 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 are pursuing 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) the risk of significant increase in production costs, such as the increase in the prices of subsidiary agricultural products, packaging cost or labour cost; (2) the negative impact on our revenue due to changes in customers' spending habits in condiment products; (3) the greater-than-expected increase in market expansion costs and selling expenses; (4) the possible failure of our new products to obtain market recognition in the short run; (5) the more complicated sales policies and credit terms management due to the rapid increase in the number of distributors; and (6) the adverse effects of the ongoing COVID-19 pandemic.



## GOALS AND STRATEGIES

As the pandemic has intensified the fierce competition in the condiment market, we will adhere to a consumer-oriented sales strategy. By “diversifying” resources to develop products for different sales channels, we are committed to achieving higher customer loyalty. We focus on providing consumers with safer and healthier naturally- brewed condiment products.

Our business goal is to enhance our position in the condiments industry by leveraging on our leading position in the cooking wine industry to diversify the sales channels and conduct sales of portfolio products. On one hand, we will further increase the input in establishing the marketing team and training our staff. On the other hand, we will enrich the product structure of the Company and offer a variety of high-quality products commensurate with the spending power of the general public. In respect of the expansion of distributors, we will continue to cooperate with capable distributors through our diversified sales channels, and continue to actively improve the market share of our “Lao Heng He” brand in the PRC market.

In view of the new spending habits due to the pandemic, we also actively accelerated the development of new retail channels and enriched our online products. A batch of new platforms with strategic cooperation have been formed, such as the online platform of KA (Key Account) malls and supermarkets, the community e-commerce platform, and the e-commerce platform for group-buying members, which achieved multi-dimensional and full coverage of promotional effects through live stream videos, short movie clips and etc. In addition, we also strived 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 come along with the growth of business. In the first half of 2020, we released the vitality of the marketing team by reforming its staffing in response to the possible negative impact caused by the incompetence of our sales teams in the sales of the Group’s products under the influence of the pandemic. Meanwhile, we also continue to further strengthen the credit risk management of customers by strengthening credit approval and establishing an information sharing platform for distributors to deal with the risks caused by the pandemic.

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

## Financial Review

### Overview

The key financial indicators of the Group are as follows:

	Six months ended 30 June		Period-to-period change
	2020	2019	
	RMB'000	RMB'000	
<b>Income statement items</b>			
REVENUE	299,678	402,218	(25.5%)
Gross profit	136,813	206,226	(33.7%)
Profit attributable to owners of the Company	42,335	99,339	(57.4%)
EBITDA	111,826	178,713	(37.4%)
Earnings per share (RMB cents) ( <i>note a</i> )			
— basic and diluted	7.3	17.2	(57.6%)
<b>Selected financial ratios</b>			
Gross profit margin (%)	45.7%	51.3%	(10.9%)
Net profit margin attributable to owners of the Company (%)	14.1%	24.7%	(42.9%)
EBITDA margin (%)	37.3%	44.4%	(16.0%)
	30 June	31 December	Period-to-period change
	2020	2019	
	RMB'000	RMB'000	
Gearing ratio ( <i>note b</i> )	30.6%	31.8%	(3.8%)

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 2020. 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 decreased by 25.5% from RMB402.2 million for the six months ended 30 June 2019 to RMB299.7 million for the corresponding period of 2020. This weak performance was primarily caused by the impact of COVID-19. The traffic control and decline in social activities caused by the pandemic has affected the business and operations of the Group and resulted in disruption to our customers, suppliers and staff.

Revenue from the Group's cooking wine products decreased by 28.1% from RMB282.5 million for the six months ended 30 June 2019 to RMB203.1 million for the corresponding period of 2020, primarily due to the abovementioned impact of COVID-19.

Revenue from the Group's soy sauce products decreased by 11.1% from RMB67.3 million for the six months ended 30 June 2019 to RMB59.8 million for the corresponding period of 2020, mainly attributable to the increase in the sales volume of soy sauce, as a result of the combined effect of our expansion of production capacity of soy sauce products and the abovementioned impact of COVID-19.

While introducing new products to the market, we have also continued to adjust our product portfolio of rice vinegar and other products by reducing the production volume of low-performing products during this period. As a result, the revenue from rice vinegar and other products decreased by 29.8% from RMB52.4 million for the six months ended 30 June 2019 to RMB36.8 million for the corresponding period of 2020.

### ***Cost of Sales***

The Group's cost of sales, including raw materials, manufacturing overhead and salaries and benefits, decreased by 16.9% from RMB196.0 million for the six months ended 30 June 2019 to RMB162.9 million for the corresponding period of 2020, primarily attributable to decrease in revenue.

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

The Group's gross profit decreased by 33.7% from approximately RMB206.2 million for the six months ended 30 June 2019 to approximately RMB136.8 million for the corresponding period of 2020, and the gross profit margin decreased from 51.3% for the six months ended 30 June 2019 to 45.7% for the corresponding period of 2020. The decrease in gross profit margin is primarily due to the combined effects of the adjustment of product structure and the increase in proportion of sales of mid-end and low-end products with relatively lower gross profit margins.

### ***Other Income and Gains***

Other income and gains increased by 16.0% from approximately RMB7.5 million for the six months ended 30 June 2019 to approximately RMB8.7 million for the corresponding period of 2020. Other income and gains primarily include government subsidies received, gains from sales of materials and interest income. The increase in other income and gains for the period was primarily due to the increase in interest income.

### ***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 11.1% from approximately RMB32.5 million for the six months ended 30 June 2019 to approximately RMB28.9 million for the corresponding period of 2020. The Group's selling and distribution expenses as a percentage of the Group's revenue increased from 8.1% for the six months ended 30 June 2019 to 9.6% for the corresponding period of 2020, primarily because the Group did not reduce the size of the sales team considering the need for future business growth.

### ***Administrative Expenses***

Administrative expenses decreased by 5.4% from approximately RMB35.2 million for the six months ended 30 June 2019 to approximately RMB33.3 million for the corresponding period of 2020, mainly due to the combined effect from the following two factors: (i) decrease in research and development expenses; (ii) decrease in salary of the Group's management personnel.

### ***Finance Costs***

Finance costs increased by 10.8% from approximately RMB28.6 million for the six months ended 30 June 2019 to approximately RMB31.7 million for the corresponding period of 2020. The increase in finance costs is primarily attributable to the increase in average borrowing amount.

### ***Profit before Tax***

As a result of the foregoing, the profit before tax decreased by 58.7% from approximately RMB117.3 million for the six months ended 30 June 2019 to approximately RMB48.4 million for the corresponding period of 2020.

### ***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% (2019: 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 2019.

Income tax expenses decreased by 65.9% from approximately RMB17.9 million for the six months ended 30 June 2019 to approximately RMB6.1 million for the corresponding period of 2020, mainly due to the decrease in profit before tax.

### ***Earnings per Share Attributable to Ordinary Equity Holders of the Company***

Basic earnings per share decreased from RMB17.2 cents for the six months ended 30 June 2019 to RMB7.3 cents for the corresponding period of 2020, mainly due to the decrease in net profit caused by the reasons stated above.

### ***Net Profit Margin***

Net profit margin dropped by 10.6 percentage points from 24.7% for the six months ended 30 June 2019 to 14.1% for the corresponding period of 2020, which was mainly attribute to the decrease in gross profit margin as a result of the aforesaid reasons.

### **Financial and Liquidity Position**

#### ***Working Capital Management***

##### ***Prepayments***

Details of prepayments as at 30 June 2020 and 31 December 2019 are as follows:

		<b>30 June 2020 RMB'000 (Unaudited)</b>	<b>31 December 2019 RMB'000 (Audited)</b>
	<i>Notes</i>		
Prepayments for non-current assets	(i)	<b>313,157</b>	315,345
Prepayments for procurement of base wine and condiment products	(ii)	<b>66,221</b>	68,567
Prepayments for procurement of raw materials	(iii)	<b>89,564</b>	128,465
Other prepayments		<b>2,643</b>	4,965
		<b>471,585</b>	517,342

- (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 RMB109.6 million and RMB203.6 million 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.

- (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.

### **Trade Receivables**

Trade receivables primarily represented the receivables for goods sold to the distributors. Trade receivables turnover days increased from 92 days for the year ended 31 December 2019 to 155 days for the six months ended 30 June 2020, which is attributable to the combined effect of the impact brought by COVID-19 and 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.

### **Inventories**

Inventories increased from approximately RMB1,403.7 million as at 31 December 2019 to approximately RMB1,500.3 million as at 30 June 2020 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 the warehouses of its 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 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 the amount of excess inventory.

### **Borrowings**

As at 30 June 2020, the Group's total borrowings amounted to approximately RMB949.4 million (31 December 2019: RMB1,024.8 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 2020, the Group had cash and cash equivalents of approximately RMB460.4 million (31 December 2019: RMB410.1 million). As at 30 June 2020, the Group had interest-bearing bank and other borrowings of an aggregate amount of RMB949.4 million (31 December 2019: RMB1,024.8 million), which were denominated in RMB, repayable within four years and bearing interests at 4.75% to 13.11% per annum. As at 30 June 2020, the gearing ratio was 30.6% (31 December 2019: 31.8%). The gearing ratio is calculated based on net debt divided by total equity and net debt as at 30 June 2020. 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 2020 amounted to approximately RMB118.7 million (31 December 2019: RMB121.3 million), mainly related to the contracts of construction in progress relating to expansion of the condiment production factory.

## **Contingent Liabilities**

As at 30 June 2020, 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**

Faced with the uncertainty of COVID-19 and consumers' concerns about the global economic outlook, the proportion of household consumption of condiment products is expected to increase, while the proportion of catering and entertainment consumption is expected to decrease. Therefore, the Company will continue to commit resources to the supermarket, distribution and e-commerce channels related to household consumption in the short term. In the long run, the Group still believes that the catering market will be the main growth point of its future business as the post-pandemic recovery continues in the catering industry. The Group is committed to developing and gradually launching value-for-money products suitable for consumption in the catering market to gain a larger market share.

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

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 and achieving automation upgrade to enhance our overall profitability. Leveraging on the product quality and technology of “Lao Heng He” brand as our core-competitiveness, we hope to stand out amid fierce market competition through differentiation in product quality.

Therefore, we believe that our “Lao Heng He” 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 2020.



## **EMPLOYEES & REMUNERATION POLICIES**

As at 30 June 2020, the Group had a total of 494 employees (31 December 2019: 538). The employees' cost (excluding directors' and chief executive's remuneration) of the Group was RMB20.3 million during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB24.2 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 2019 (the **"2019 Annual Report"**) and no change has been made during the six months ended 30 June 2020.

## **SIGNIFICANT INVESTMENTS HELD**

The Group did not hold any significant investments as at 30 June 2020 (31 December 2019: 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 2020.

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

During the six months ended 30 June 2020, 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 2020.

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 2020, 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 2020. 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 2020.

## **AUDIT COMMITTEE**

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

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 2020.

## **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 2020 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](http://www.hkexnews.hk) and on the website of the Company at [www.hzlaohenghe.com](http://www.hzlaohenghe.com). The interim report of the Company for the six months ended 30 June 2020 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, 31 August 2020

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