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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 2023

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2023 amounted to approximately RMB127.8 million, representing a decrease of 7.7% from approximately RMB138.5 million for the corresponding period of 2022.
- Gross profit for the six months ended 30 June 2023 amounted to approximately RMB44.2 million, representing a decrease of 14.4% from approximately RMB51.6 million for the corresponding period of 2022.
- Loss attributable to ordinary equity holders of the Company for the six months ended 30 June 2023 amounted to approximately RMB244.9 million, representing an increase of 14.2% from approximately RMB214.5 million for the corresponding period of 2022.
- The Board does not recommend the payment of interim dividends for the six months ended 30 June 2023 (six months ended 30 June 2022: 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 condensed consolidated interim financial results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2023, together with the comparative figures for the corresponding period of 2022 as follows:

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2023

	<i>Notes</i>	Six months ended 30 June	
		2023	2022
		<i>RMB’000</i>	<i>RMB’000</i>
		(Unaudited)	(Unaudited)
Revenue	4	127,791	138,455
Cost of sales		(83,609)	(86,848)
Gross profit		44,182	51,607
Other income and gains	4	1,282	2,732
Selling and distribution expenses		(46,503)	(34,771)
Administrative expenses		(22,091)	(19,440)
(Impairment losses)/Reversal of impairment losses, net		(462)	739
Other expenses		(128,764)	(112,036)
Finance costs	6	(92,570)	(103,321)
Loss before income tax	5	(244,926)	(214,490)
Income tax expense	7	–	–
Loss for the period		(244,926)	(214,490)
Loss per share attributable to ordinary equity holders of the Company			
Basic and diluted (RMB)	8	(0.42)	(0.37)

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF
COMPREHENSIVE INCOME**

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	<u>(244,926)</u>	<u>(214,490)</u>
Other comprehensive expense:		
Other comprehensive expense that may be reclassified to profit or loss in subsequent periods:		
— Exchange differences on transaction of foreign operations	<u>(1,477)</u>	<u>(2,426)</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	<u>(246,403)</u>	<u>(216,916)</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	<i>10</i>	256,553	263,120
Right-of-use assets		47,610	48,260
Other intangible assets		1,015	1,122
Prepayments, other receivables and other assets	<i>13</i>	5,045	6,673
		310,223	319,175
Current assets			
Inventories	<i>11</i>	639,674	646,740
Trade receivables	<i>12</i>	21,981	20,484
Prepayments, other receivables and other assets	<i>13</i>	139,670	117,849
Amounts due from related companies		27	8,740
Pledged deposits	<i>14</i>	121	283
Cash and cash equivalents	<i>14</i>	2,248	9,806
		803,721	803,902
Current liabilities			
Trade payables	<i>15</i>	47,267	50,020
Other payables and accruals	<i>16</i>	282,475	411,704
Other liabilities	<i>18</i>	100,000	50,000
Amounts due to related companies		11,598	12,693
Amount due to ultimate holding company		50,317	48,751
Interest-bearing other borrowings	<i>17</i>	2,578,567	2,209,031
Provision for loss on unauthorised guarantees		17,500	17,500
Tax payable		73,015	73,015
		3,160,739	2,872,714

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2023

		As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Net current liabilities		<u>(2,357,018)</u>	<u>(2,068,812)</u>
Total assets less current liabilities		<u>(2,046,795)</u>	<u>(1,749,637)</u>
Non-current liabilities			
Interest-bearing other borrowings	<i>17</i>	1,824	2,533
Other long term liabilities	<i>18</i>	<u>5,947</u>	<u>55,993</u>
		<u>7,771</u>	<u>58,526</u>
Net liabilities		<u><u>(2,054,566)</u></u>	<u><u>(1,808,163)</u></u>
EQUITY			
Share capital	<i>19</i>	1,767	1,767
Reserves		<u>(2,056,333)</u>	<u>(1,809,930)</u>
Total deficit		<u><u>(2,054,566)</u></u>	<u><u>(1,808,163)</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2023

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.

The Company is an investment holding company. During the six months ended 30 June 2023, 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 condensed consolidated interim financial statements (the “**Interim Financial Information**”) of the Group for the six months ended 30 June 2023 have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “*Interim Financial Reporting*” issued by International Accounting Standards Board (“**IASB**”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Interim Financial Information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2022.

Changes in accounting policies and disclosures

The Interim Financial Information for the six months ended 30 June 2023 have been prepared in accordance with the accounting policies adopted in the Group’s annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and amended International Financial Reporting Standards (“**IFRSs**”) which are effective as of 1 January 2023.

IFRS 17	Insurance Contracts and related amendments
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform — Pillar Two Model Rules

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

3. OPERATING SEGMENT INFORMATION

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

- The food segment that manufactures and sells condiment products

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	<u>14,387</u>	<u>17,547</u>

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Revenue from contracts with customers</i>		
Sale of goods	<u>127,791</u>	<u>138,455</u>

4. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers

(i) Disaggregated revenue information

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Type of goods		
Condiment products	<u>127,791</u>	<u>138,455</u>
Timing of revenue recognition		
Goods transferred at a point in time	<u>127,791</u>	<u>138,455</u>

(ii) Performance obligations

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

Sale of products

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

Other income and gains

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Subsidy received	136	448
Bank interest income	12	11
Foreign exchange gain, net	42	–
Others	<u>1,092</u>	<u>2,273</u>
	<u>1,282</u>	<u>2,732</u>

5. LOSS BEFORE INCOME TAX

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Employee benefit expenses (excluding directors' remuneration):		
— Wages and salaries	18,660	19,086
— Pension scheme contributions	2,663	3,024
	<u>21,323</u>	<u>22,110</u>
Depreciation:		
— Owned assets	13,593	11,502
— Right-of-use assets	650	1,056
Total depreciation	<u>14,243</u>	<u>12,558</u>
Amortisation of other intangible assets	107	1,103
Cost of inventories recognised as expenses	83,609	86,848
Research and development costs	6,463	6,092
Donations	51	—
Foreign exchange (gain)/loss, net	(42)	17

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on other borrowings	92,460	103,157
Interest on lease liabilities	110	164
	<u>92,570</u>	<u>103,321</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Income Tax		
— Current period	—	—

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

The calculation of the basic loss per share amounts is based on the loss 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 2022: 578,750,000) in issue during the six months ended 30 June 2023.

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Loss attributable to ordinary equity holders of the Company (RMB'000)	<u>(244,926)</u>	<u>(214,490)</u>
Weighted average number of ordinary shares in issue (in thousands)	<u>578,750</u>	<u>578,750</u>
Loss per share attributable to ordinary equity holders of the Company — Basic and diluted (RMB)	<u><u>(0.42)</u></u>	<u><u>(0.37)</u></u>

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 June 2023 and 2022 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 2023 (six months ended 30 June 2022: nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group purchased property, plant and equipment with an aggregate cost of RMB7,814,000 (six months ended 30 June 2022: RMB2,978,000).

11. INVENTORIES

	As at	As at
	30 June	31 December
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Raw materials	10,978	9,784
Work in progress	610,074	617,627
Finished goods	<u>18,622</u>	<u>19,329</u>
	<u><u>639,674</u></u>	<u><u>646,740</u></u>

12. TRADE RECEIVABLES

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Trade receivables, gross	24,961	23,949
Less: Allowance for credit losses	<u>(2,980)</u>	<u>(3,465)</u>
Trade receivables, net	<u><u>21,981</u></u>	<u><u>20,484</u></u>

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

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

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

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Within 3 months	17,375	16,545
3 to 6 months	1,959	2,932
6 months to 1 year	2,559	1,007
Over 1 year	<u>88</u>	<u>–</u>
	<u><u>21,981</u></u>	<u><u>20,484</u></u>

13. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Prepayments	5,894	9,077
Value-added tax recoverable	105,739	90,439
Deposits and other receivables	<u>33,082</u>	<u>25,006</u>
	144,715	124,522
Less: Portion classified as non-current assets	<u>(5,045)</u>	<u>(6,673)</u>
Current portion included in prepayments, other receivables and other assets	<u><u>139,670</u></u>	<u><u>117,849</u></u>

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Cash and bank balances	2,248	9,806
Pledged deposits	<u>121</u>	<u>283</u>
	<u><u>2,369</u></u>	<u><u>10,089</u></u>

Cash and cash equivalents are denominated in:

RMB	1,482	8,581
Hong Kong Dollar	587	598
United States Dollar (USD)	<u>179</u>	<u>627</u>
Cash and cash equivalents	<u><u>2,248</u></u>	<u><u>9,806</u></u>

15. TRADE PAYABLES

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

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Within 3 months	21,807	31,521
3 to 6 months	18,653	16,322
Over 6 months	<u>6,807</u>	<u>2,177</u>
	<u><u>47,267</u></u>	<u><u>50,020</u></u>

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

16. OTHER PAYABLES AND ACCRUALS

		As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Contract liabilities		9,928	32,736
Other tax payables	(a)	56,613	165,527
Other payables and accruals	(b)	210,213	204,282
Amount due to a director		7	9
Salary payables		5,714	9,150
		<u>282,475</u>	<u>411,704</u>

Notes:

- (a) Included the balances was mainly the value added tax payable of approximately RMB95,165,000 (31 December 2022: RMB149,991,000).
- (b) Included in the balances was mainly the provision of surcharge for overdue tax payment and equipment and construction costs payables of approximately RMB198,939,000 and RMB2,242,000 (31 December 2022: RMB178,942,000 and RMB7,473,000).

17. INTEREST-BEARING OTHER BORROWINGS

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Current		
Lease liabilities	1,183	1,308
Other borrowings — unsecured	295,766	119,384
Other borrowings — secured	2,281,618	2,088,339
	<u>2,578,567</u>	<u>2,209,031</u>
Non-current		
Lease liabilities	1,824	2,533
Total	<u>2,580,391</u>	<u>2,211,564</u>

17. INTEREST-BEARING OTHER BORROWINGS (Continued)

Notes:

- (a) As at 30 June 2023, included in the balances was other borrowings amounting to approximately RMB295,766,000 (31 December 2022: RMB119,384,000) which was unsecured, bearing interest at 7.00%–24.00% (31 December 2022: 7.00%–24.00%) per annum and repayable within one year (31 December 2022: repayable within one year).
- (b) As at 30 June 2023, included in the balances was other borrowings amounting to approximately RMB2,281,618,000 (31 December 2022: RMB2,088,339,000) which was secured, bearing interest at 10.65%–15.32% (31 December 2022: 10.65%–15.32%) per annum and repayable within one year (31 December 2022: repayable within one year), in which RMB186,819,000, RMB1,839,684,000 and RMB255,115,000 (31 December 2022: RMB170,601,000, RMB1,683,214,000 and RMB234,524,000) was from Huzhou Wuxing Chengshi Touzi Fazhan Jituan Youxian Gongsi 湖州吳興城市投資發展集團有限公司 (“湖州吳興城市”), 湖州吳興南太湖建設投資集團有限公司 (“南太湖”) and 湖州湖盛融資租賃有限公司 (“湖盛融資”) respectively. Mr. Chen Wei was the chairman of the 湖州吳興城市, which is the holding company of 南太湖 and 湖盛融資.
- (c) As at 30 June 2023, the Group’s other borrowings amounting to approximately RMB1,903,925,000 (31 December 2022: RMB1,671,025,000) in principal amount were overdue and the related overdue interest expense of approximately RMB108,518,000 (30 June 2022: RMB83,203,000) was recognised for the six months ended 30 June 2023.
- (d) At the end of the reporting period, certain of the Group’s assets were pledged to the lenders for securing the other borrowings granted to the Group.

The carrying values of these assets are:

	Carrying values	
	30 June 2023	31 December 2022
	RMB’000 (Unaudited)	RMB’000 (Audited)
Property, plant and equipment	200,607	211,737
Right-of-use assets	47,610	48,260
Inventories	545,064	556,115
	<u>793,281</u>	<u>816,112</u>

- (e) As at 30 June 2023, included in the balances was other borrowings amounting to approximately RMB18,101,000 (31 December 2022: RMB17,075,000) that were withdrawn on behalf of a former related company, Zhejiang Zhongwei. The amount was unsecured, bore interest at 24.00% (31 December 2022: 24.00%) per annum and repayable on demand.

17. INTEREST-BEARING OTHER BORROWINGS (Continued)

- (f) As at 30 June 2023, the Group's other borrowings amounting to approximately RMB1,640,362,000 (31 December 2022: RMB1,640,362,000) in principal amount included certain sales and leaseback arrangements of machinery and equipment with remaining lease terms of 1 year (31 December 2022: 1 year) as at 30 June 2023. According to the sale and leaseback agreements, if no default occurs during the lease term, the ownership of the plant and machinery shall be automatically transferred to the lessee at a nominal consideration.

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

All the Group's other borrowings are denominated in RMB. The carrying amounts of the Group's other borrowings approximate to their fair values.

18. OTHER LONG TERM LIABILITIES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Other long term payables (<i>note</i>)	–	50,000
Provision for long service payment	5,947	5,993
	<u>5,947</u>	<u>55,993</u>

Note:

On 6 May 2016, two subsidiaries of the Company, Huzhou Chen Shi Tianniang Industrial Co., Ltd (“**Huzhou Chenshi**”) and Huzhou Laohenghe Brewery Co., Limited (“**Huzhou Laohenghe**”, which is also the 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.

According to the repayment schedule under the Investment Agreement, RMB50,000,000 was payable on 2 February 2024 (31 December 2022: RMB50,000,000 was payable within the year ending 31 December 2023). RMB100,000,000 (31 December 2022: RMB50,000,000) was reallocated as current portion included in other liabilities as at 30 June 2023.

19. SHARE CAPITAL

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Authorised:		
1,000,000,000 ordinary shares of USD0.0005 (RMB0.00305) each	<u>3,050</u>	<u>3,050</u>
Issued and fully paid:		
578,750,000 ordinary shares of USD0.0005 (RMB0.00305) each	<u>1,767</u>	<u>1,767</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

We are one of the leading manufacturers of condiment products in the People’s Republic of China (the “**PRC**” or “**China**”). We offer high quality and healthy brewed cooking wine as well as other condiments, including naturally-brewed soy sauce, naturally-brewed vinegar, soybean paste, sesame oil and fermented bean curd. In the first half of 2023, we attained the following achievements:

1. We were jointly entitled by the Ministry of Agriculture and Rural Affairs of the People’s Republic of China, National Development and Reform Commission and other departments as the “National-level Dragon Head Leading Agricultural Enterprise (農業產業化國家重點龍頭企業)”;
2. Our 500ml Five-year brewed Lao Heng He cooking wine was recognized as “Zhejiang Province Famous, Special and Excellent Food (浙江省名特優食品)” by the Zhejiang Food Industry Organization (浙江省食品工業協會) and included in the Catalogue of Chinese Characteristic and Flavourful Food Marked Products (中國特色風味食品標誌性產品名錄);
3. Our product, the king of Huadiao cooking wine (花雕料酒王) was awarded the title of 2023 Cereal-based Brew Cooking Wine Flavor Award (2023穀物釀造料酒醞味獎) at the 18th China International Alcoholic Drinks Expo & the 2023 Brewed Cooking Wine Evaluation; and
4. Our product, Lao Heng He cooking wine (老恒和料酒) was awarded the title of “2022 Best-selling Cooking Wine (2022料酒暢銷金品)” by FMCG Weekly (快消品週刊) for offline sales in 2022. During the interim period of 2023, the market share of the Group’s offline sales was 18.6%, being the industry leader for six consecutive years.

In the first half of 2023, despite full relaxation of the national epidemic control measures, the economy was not recovering as expected. Under the influence of various factors including global economic recession, inflation, fiscal crisis and intensified trade wars, purchasing power continued to decline. Meanwhile, the condiment industry is affected by various factors such as rising raw material costs, intensifying competition, weak consumption, the outlook of entire condiment market tends to be pessimistic, and the growth in business performance of all enterprises is generally under huge pressure. From January 2023 to March 2023, the overall consumer market and all channels maintained a positive momentum as a result of the full relaxation of the epidemic control measures. However, from April 2023 to June 2023, the economy has not yet recovered, and on the contrary, the situation worsened and sales continued to slow down, resulting in longer inventory turnover and less frequent purchases by distributors. Against the backdrop of the abovementioned obstacles, the Group promoted the sales growth of its products through various means, such as stepping up promotional efforts and launching the Hundred-Day Campaign.

In the first half of 2023, as for market strategy, the Group continued to engage professional marketing team from Shanghai Osens Creative of Culture Co., Ltd (上海歐賽斯文化創意有限公司) to provide a full-scale upgrade package for our current brand and product positioning, logo image, marketing slogans and product packaging, external image, strategies and promotional campaigns, so as to enhance the brand image of “Lao Heng He (老恒和)” among consumers, and once again put forward the core concepts of “fragrance of time (時間至香)” cooking wine, “freshness of time (時間至鮮)” soy sauce and “beauty of time (時間至美)” rice vinegar. By adopting a brand new appearance under our “grand brand, big single product and national product (大品牌、大單品、國民產品)” strategy, the Group strived to capture the high ground in the condiment and cooking wine industries.

In the first half of 2023, in order to further enhance the brand awareness and influence of the Company through advertising and promotion, the Group became the title sponsor of the “2023 Wu Xing New Youth City Super Music Festival (2023吳興新青年城市超級音樂節)” in June 2023. The musical extravaganza symbolised revival of youth and served as a trendy platform showcasing the city’s great variety of art and culture. More young people can be part of the community of “Lao Heng He”, a century-old Chinese brand. Meanwhile, the Group organised a group showcase and new product launch event in June 2023 with the theme of “Centennial Lao Heng He, Taste of Exquisite Chinese Cooking Wine (百年老恒和、中國料酒香)”, which enhanced our distributors’ confidence in distributing our products.

In respect of internal corporate control, the Group continued to engage Adfaith Management Consulting Co., Ltd (正略鈞策集團股份有限公司) to perfect and supplement all aspects of the original group organisational structure, departmental setting, departmental rights and responsibilities, establishment of remuneration system, evaluations and management, and to enhance the robustness of the internal control management of the Group. The Company has established a brand new mechanism suitable for its future development, which is premised on the employment orientation of “promoting the capable, yielding to the average, demoting the mediocre, and eliminating the inferior (能者上，平者讓，庸者下，劣者汰)”. Through optimising the compensation and welfare system and performance management system, new standards for personnel selection, employment, education, and retention, an efficient management team with cohesion, creativity, and execution has been created under the introduction of external talent and the cultivation of internal talent. During the first half of 2023, the Group has introduced a number of doctoral students, management personnel and research and development personnel. Through internal training, the Group has upgraded the skills of its frontline staff, which has further strengthened the business standard of the Company and promoted the future development of the Group.

In terms of product research and development, in the first half of 2023, the Group jointly established a research and development team of talent possessing doctoral and undergraduate qualifications with external technical professionals and established a comprehensive product research and development system and procedures. Our team cooperated with tertiary institutions such as Zhejiang Gongshang University to carry out research on brewing theories and standardisation of technological procedures of production. We successfully developed and launched six new products while improving the technology of the new production line of soy sauce and soybean paste, and product production has commenced smoothly.

In respect of product quality control, in the first half of 2023 the Group continued to strengthen technical support and improve the ability to guarantee food safety technology by purchasing relevant devices and testing equipment. We have strengthened and improved the food safety control system to strictly control the process from raw materials, processing, factory inspection to storage, transportation and sales. We have built a whole-process digital food safety traceability system, so as to implement code control of each product, formulate emergency plans and disposal plans for food safety accidents, establish a sound risk management and control mechanism, implement food safety hazard investigation, and carry out monitoring measures such as daily control, weekly inspection and monthly scheduling. Meanwhile, we have formulated emergency plans and disposal plans for food safety accidents to gradually improve and enhance the establishment of the quality system.

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

In the first half of 2023, the Group achieved sales revenue of approximately RMB127.8 million, representing a decrease of approximately RMB10.7 million, or approximately 7.7% as compared to the corresponding period in 2022. On one hand, the industry was still under the comprehensive impact of factors such as rising raw material costs, intensifying competition, weak consumption and continuous decline in purchasing power; while on the other hand, our product supply and sales was affected in varying degrees by the process of upgrading and renovating the Group's existing equipment.

In the first half of 2023, our cooking wine products remained as a major source of revenue of the Company, accounting for approximately 65.0% of our total revenue. On the other hand, with the gradual release of production capacity of our soy sauce products, our sales revenue of soy sauce products in the first half of 2023 amounted to approximately RMB13.5 million, accounting for approximately 11.0% of our total revenue. In terms of market strategy, we continued to pursue the market penetration strategy we adopted in 2022, aiming to expand our distributor network in response to the adverse impact of the pandemic on the business environment. Our existing distributors are located in fourth- and fifth-tier cities across 30 provinces, autonomous regions and municipalities in China. The Company continued to promote channel penetration, while at the same time focusing on the development of distribution and catering channels in the Yangtze River Delta and Pearl River Delta regions and increasing investment in the promotion of the reach of our products at sales terminals through a number of preferential measures. In order to match with the aforementioned market penetration strategy and to cope with the adverse factors of the pandemic, we have adjusted the Group's product structure to increase the proportion of sales of low and mid-range products with higher popularity yet lower gross margins. As a result, the gross profit margin of the Group's products decreased from approximately 37.3% for the six months ended 30 June 2022 to approximately 34.6% for the six months ended 30 June 2023.

The loss attributable to ordinary equity holders of the Company for the six months ended 30 June 2023 was approximately RMB244.9 million (corresponding period in 2022: RMB214.5 million), representing an increase of approximately 14.2% as compared to the corresponding period in 2022, mainly due to the abovementioned decrease in revenue and gross profit, as well as the impact of finance costs and other expenses. Based on the expected growth in sales of cooking wine, soy sauce, rice vinegar, fermented bean curd and other products as a result of the growing demand from existing customers and further development of sales channels, we believe that a rich and diversified condiment product portfolio will be more beneficial to the business development of the Group in the coming years. Therefore, we are planning to further develop the horizontal and vertical condiment industry chain, and make Lao Heng He a diversified condiment manufacturer with cooking wine as the leading product.

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

Goals and Strategies

The gross domestic product (GDP) of the PRC recorded a year-on-year growth of 5.5% in the first half of 2023. The huge economic impact brought from COVID-19 pandemic in the PRC last year, coupled with the current global situation which remains grim, has created new headwinds for the PRC's economic recovery. In addition, some structural problems, such as industrial upgrading and restructuring, and an ageing population, have also posed considerable challenges to economic development. In view of these challenges and difficulties, we need to further strengthen macroeconomic control and promote the sustainable and healthy development of the economy. Our sales strategy remains consumer-focused, with the development of suitable products that offer good value for money to meet the needs of different consumers. We have “diversified” our resources to develop products that are suitable for different sales channels, in order to achieve a higher level of customer loyalty. We focus on providing consumers with better quality, safer and healthier naturally-brewed condiment.

At the 2023 staff meeting, the Group made the decision and plan of “unifying thoughts , clarifying objectives, strengthening assessment and incentive assessment (統一思路、明確目標、強化考核、激勵考核)”, always focused on the long-term objectives and achieved a balance among short-term, medium-term and long-term strategies through continuous and effective incentive measures. The ultimate objective of the Board's communication meeting in June 2023 will continue to focus on the operations, and the “one heart with two wings (一心兩翼)” approach to the Company's future strategies has been proposed for the first time. Under the guidance of the basic principle and operating policy of “focusing on the naturally-brewed cooking wine industry and refining other industries (聚焦天然釀造料酒產業，其他產業做精做細)”, the Group will quickly and steadily achieve its operating objectives, strive for higher operating performance, and lay a solid foundation for the future development of the Group's business. Despite the challenging market, the Group is still looking forward to the future. The Group will continue to focus on the following areas to drive further growth of the Group's business, thereby creating greater value for the Shareholders.

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

We have also actively accelerated the development of new retail sales channels, enriched our online offerings and formed a number of online channels that combine traditional e-commerce and emerging retail platforms, such as key account (KA) supermarket's online platform, community e-commerce platform, group buying membership e-commerce platform, etc. Each platform has achieved multi-dimensional full promotional coverage through online live streaming and video clip. In addition, we also strive to drive the linkage between social e-commerce and the community to create a community distribution model for all-staff shopping guides.

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

Financial Review

Overview

The key financial indicators of the Group are as follows:

	Six months ended 30 June		Period-to-period change %
	2023 RMB'000	2022 RMB'000	
Income statement items			
Revenue	127,791	138,455	(7.7)
Gross profit	44,182	51,607	(14.4)
Loss attributable to ordinary equity holders of the Company	(244,926)	(214,490)	14.2
Loss before income, tax, depreciation and amortisation (“LBITDA”)	(138,006)	(97,508)	41.5
Loss per share (RMB) (note a) — basic and diluted	(0.42)	(0.37)	13.5
Selected financial ratios			
Gross profit margin (%)	34.6	37.3	(7.2)
Net loss margin attributable to ordinary equity holders of the Company (%)	(191.7)	(154.9)	23.8
LBITDA margin (%)	(108.0)	(70.4)	53.4
	30 June 2023 RMB'000	31 December 2022 RMB'000	Period-to-period change %
Gearing ratio (note b)	297.8	242.6	22.8

Notes:

- (a) Please refer to note 8 to the Interim Financial Information for the calculation of loss per share.
- (b) The gearing ratio is based on net debt divided by total equity and net debt as at 30 June 2023. Net debt includes total debt net of cash and cash equivalents. Total debt includes trade payables, other payables and accruals, other liabilities, amounts due to related companies, amount due to ultimate holding company, interest-bearing other borrowings, provision for loss on unauthorised guarantees and other long-term liabilities.

Revenue

The revenue of the Group decreased by 7.7% from RMB138.5 million for the six months ended 30 June 2022 to RMB127.8 million for the corresponding period of 2023, primarily due to decrease in the sales volume of the Group's product as a result of the combined effect of the increased uncertainty of consumer's expectations of the future, sluggish consumer market for condiment products, intense competitions in the industry and lower supply of the Group's products due to upgrade and renovation of existing equipment by the Group.

Revenue from the Group's cooking wine products decreased by 9.2% from RMB89.6 million for the six months ended 30 June 2022 to RMB81.4 million for the corresponding period of 2023, primarily due to the decline in sales volume of certain products of the Group's grain brewed cooking wine as a result of the combined effect of increasingly intensified competitions in the cooking wine sector as the categories of other condiment products were relatively saturated, and the promotions launched by leading condiment manufacturers to expand the new cooking wine market.

Revenue from the Group's soy sauce products increased by 6.3% from RMB12.7 million for the six months ended 30 June 2022 to RMB13.4 million for the corresponding period of 2023 primarily due to the increase in sales of the Group's soy sauce products as the Group stepped up its efforts in the promotion of soy sauce products to deal with competition and changes of the condiment consumption market and to further expand its market.

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 9.0% from RMB36.2 million for the six months ended 30 June 2022 to RMB32.9 million for the corresponding period of 2023.

Cost of Sales

The Group's cost of sales, including raw materials, manufacturing overhead and salaries and benefits, decreased by 3.7% from RMB86.8 million for the six months ended 30 June 2022 to RMB83.6 million for the corresponding period of 2023, primarily attributable to the decrease in the Group's overall sales volume.

Gross Profit and Gross Profit Margin

The Group's gross profit decreased by 14.4% from approximately RMB51.6 million for the six months ended 30 June 2022 to approximately RMB44.2 million for the corresponding period of 2023, and the gross profit margin decreased from 37.3% for the six months ended 30 June 2022 to 34.6% for the corresponding period of 2023. 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 low gross profit margins.

Other Income and Gains

Other income and gains decreased by 53.0% from approximately RMB2.7 million for the six months ended 30 June 2022 to approximately RMB1.3 million for the corresponding period of 2023. Other income and gains primarily include government subsidies received, gains from sales of materials and interest income. The decrease in other income and gains for the period was primarily due to the decrease in interest income from deposits of financing and government grants.

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 increased by 33.7% from approximately RMB34.8 million for the six months ended 30 June 2022 to approximately RMB46.5 million for the corresponding period of 2023. The Group's selling and distribution expenses as a percentage of the Group's revenue increased from 25.1% for the six months ended 30 June 2022 to 36.4% for the corresponding period of 2023, primarily due to increase in the Group's various selling and distribution expenses as a result of intensifying competition and weak consumption in the condiment industry.

Administrative Expenses

Administrative expenses increased by 13.7% from approximately RMB19.4 million for the six months ended 30 June 2022 to approximately RMB22.1 million for the corresponding period of 2023, mainly due to the increase in professional and legal service fees and research and development costs.

Finance Costs

Finance costs decreased by 10.4% from approximately RMB103.3 million for the six months ended 30 June 2022 to approximately RMB92.6 million for the corresponding period of 2023. The decrease in finance costs is primarily attributable to the decrease in interest of finance lease and repayment of partial long-term borrowings of the Group.

Loss before Income Tax

As a result of the foregoing, the loss before income tax increased by 14.2% from approximately RMB214.5 million for the six months ended 30 June 2022 to approximately RMB244.9 million for the corresponding period of 2023.

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% (corresponding period in 2022: 25%) on the taxable profits, in accordance with the existing legislation, interpretations and practices.

Income tax expenses remained nil for the six months ended 30 June 2023 and the corresponding period of 2022 mainly due to the continuous losses incurred by the Group.

Loss per Share Attributable to Ordinary Equity Holders of the Company

Basic loss per share increased from RMB0.37 for the six months ended 30 June 2022 to RMB0.42 for the corresponding period of 2023, mainly due to the increase in net loss caused by the reasons stated above.

Net Loss Margin

Net loss margin increased by 23.8 percentage points from 154.9% for the six months ended 30 June 2022 to 191.7% for the corresponding period of 2023, which was mainly attributable to the decrease in gross profit margin as a result of the aforesaid reasons.

Financial and Liquidity Position

Prepayments, deposits and other receivables

Details of the Group's prepayments, deposits and other receivables as at 30 June 2023 and 31 December 2022 are as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Prepayments for fixed assets	5,045	6,673
Prepayments for procurement of condiment products	246	1,936
Other prepayments	678	2,417
Deposits and other receivables	33,934	26,618
	39,903	37,644
Less: Portion classify as non-current assets	(5,045)	(6,673)
Current portion included in prepayments, deposits and other receivables	34,858	30,971

Trade Receivables

Trade receivables primarily represented the receivables for goods sold to the distributors. Trade receivables turnover days increased from 32 days for the year ended 31 December 2022 to 34 days for the six months ended 30 June 2023, which is attributable to the combined effect of the impact brought by the post pandemic era and the Group's temporary relaxation of the credit period for some customers with long-term cooperation intentions based on the Group's expectation on the sales to the customers to consolidate customer base.

Inventories

Inventories decreased from approximately RMB646.7 million as at 31 December 2022 to approximately RMB639.7 million as at 30 June 2023 primarily due to a decrease 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.

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

Borrowings

As at 30 June 2023, the Group's total borrowings amounted to approximately RMB2,580.4 million (31 December 2022: RMB2,211.6 million). The Group's principal sources of liquidity include cash generated from business operations 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 2023, the Group had cash and cash equivalents of approximately RMB2.2 million (31 December 2022: RMB9.8 million). As at 30 June 2023, we had other borrowings of an aggregate amount of RMB2,580.4 million (31 December 2022: RMB2,211.6 million), which were denominated in RMB with interest rates from 4.80% to 24.00% per annum.

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

Capital Commitments

Capital commitments as at 30 June 2023 amounted to approximately RMB19.5 million (31 December 2022: RMB14.8 million), mainly related to the contracts of construction in progress relating to addition of equipment and investments in technical transformation.

Contingent Liabilities

As at 30 June 2023, the Group did not have any material contingent liability.

Pledge of Assets

Please refer to note 17(d) of Interim Financial Information 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

Looking forward to the second half of 2023, the food industry in the PRC will be highly competitive, and the Company will be facing various competitive pressures from the changes in consumer preferences and consumption trends, consumers' brand loyalty, new product launches, competitors' pricing strategies, substitution of the Company's products by alternative products, and the development of regional and local economies. We are facing new challenges and opportunities. The Company will study the needs of consumers carefully, insist on research and development and innovation of lead advanced consumer concepts, and continue to introduce new products and new production lines that meet the needs of the PRC market and consumers. With the advantages of multiple products and multiple channels, the Company will be able to quickly introduce its products to the market through the shared sales pipelines and inter-pipeline synergies, the China Time-honored Brand products with high cost-performance value continue to be popular among consumers. Meanwhile, health, safety and flavor are still the essence of the innovation and development of condiment cooking wine industry. The Group still insists on being consumer-oriented, never forgetting the original intention and sticking to quality and conveying the brand philosophy of "Making good cooking wine with heart (用心做好料酒)" through the products to consumers and generating resonance with them. Meanwhile, we make good use of our strengths to constantly innovate to meet consumers' personalised, diversified, healthy and high-end demands and provide good-looking, high quality and safer, more nutritious and healthier flavours to consumers.

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

The economic growth in the PRC is generally expected to continue and the consumption upgrade will remain a long-term trend. In addition to maintaining the leading position of our cooking wine products in the sales of mid-to-high-end products and grain brewing products in the industry, the Company will insist to optimise its product structure in response to the changes in the economic situation at each stage, introduce various products to meet the needs of different consumer groups, and to respond to changes in demand by providing a full range of high-end, mid-range and mass market products. We will endeavour to adhere to our strategy of "diversified" horizontal and vertical product structure so as to meet the diversified market demand for green, healthy and tasty condiment products. We will also keep expanding our production capacity and achieving automation upgrade to enhance our overall profitability. Leveraging on the high-quality base wine, product quality and technology of "Lao Heng He (老恒和)" brand as our core competitiveness, we hope to stand out amid fierce market competition through differentiation in product quality.

Therefore, we believe that our upgraded "Lao Heng He (老恒和)" 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 2023.

EMPLOYEES & REMUNERATION POLICIES

As at 30 June 2023, the Group had a total of 561 full time employees (31 December 2022: 535). The employees' cost (excluding directors' and chief executive's remuneration) of the Group was RMB21.3 million during the six months ended 30 June 2023 (six months ended 30 June 2022: RMB22.1 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 2022 and no change has been made during the six months ended 30 June 2023.

SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investments as at 30 June 2023 (31 December 2022: 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 2023.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2023, 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.

The Company has complied with the Code for the six months ended 30 June 2023.

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 2023. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the six months ended 30 June 2023.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) is comprised of four Directors, namely Mr. Ng Wing Fai (chairman), Mr. Shen Zhenchang, Mr. Sun Jiong and Mr. Wu Hongping.

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 2023.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has discussed with the management of the Company and reviewed and passed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2023 and recommended its adoption by the Board.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.hzlaohenghe.com. The interim report of the Company for the six months ended 30 June 2023 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 Wei
Chairman

Hong Kong, 31 August 2023

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