Honworld Group Limited

老恒和釀造有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2226)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2023 amounted to RMB258.8 million, representing a decrease of 4.7% from RMB271.6 million recorded in 2022.

- Gross profit for the year ended 31 December 2023 amounted to RMB74.1 million, representing a decrease of 0.9% from RMB74.8 million recorded in 2022.

- Loss attributable to ordinary equity holders of the Company for the year ended 31 December 2023 amounted to RMB524.3 million, representing an increase of 7.8% from RMB486.3 million recorded in 2022.

- The Board does not recommend the payment of a final dividend for the year ended 31 December 2023.

* *For identification purposes only*

The board (the "**Board**") of directors (the "**Directors**") of Honworld Group Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (the "**Group**" or "**we**") for the year ended 31 December 2023, together with the comparative figures for the year ended 31 December 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	**2023** *RMB'000*	2022 *RMB'000*
Revenue	*4.1*	**258,784**	271,600
Cost of sales		**(184,673)**	(196,784)
Gross profit		**74,111**	74,816
Other income and gains	*4.2*	**2,993**	20,701
Selling and distribution expenses		**(95,194)**	(74,708)
Administrative expenses		**(47,133)**	(44,392)
Reversal of/(Provision for) impairment losses, net		**170**	(23,182)
Other expenses	*5*	**(264,388)**	(235,663)
Finance costs	*7*	**(194,875)**	(203,911)
Loss before income tax	*6*	**(524,316)**	(486,339)
Income tax expense	*8*	**–**	–
Loss for the year		**(524,316)**	(486,339)
Loss per share attributable to ordinary equity holders of the Company			
Basic and diluted *(RMB)*	*10*	**(0.91)**	(0.84)
Loss for the year		**(524,316)**	(486,339)
Items that will be reclassified subsequently to profit or loss			
Exchange loss on translation of financial statements of foreign operations		**(1,063)**	(3,930)
Total comprehensive expense for the year		**(525,379)**	(490,269)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**258,114**	263,120
Right-of-use assets		**46,960**	48,260
Other intangible assets		**907**	1,122
Prepayments, other receivables and other assets	*13*	**3,865**	6,673
		309,846	319,175
Current assets			
Inventories	*11*	**645,899**	646,740
Trade receivables	*12*	**20,775**	20,484
Prepayments, other receivables and other assets	*13*	**126,167**	117,849
Amounts due from related companies		**246**	8,740
Pledged deposits		**131**	283
Cash and cash equivalents		**10,124**	9,806
		803,342	803,902
Current liabilities			
Trade payables	*14*	**57,268**	50,020
Other payables and accruals	*15*	**432,455**	411,704
Other liabilities		**50,000**	50,000
Amounts due to related companies		**1,649**	12,693
Amount due to immediate holding company		**453**	–
Amount due to ultimate holding company		**–**	48,751
Interest-bearing bank and other borrowings	*16*	**2,806,293**	2,209,031
Provision for loss on unauthorised guarantees		**17,500**	17,500
Tax payable		**72,408**	73,015
		3,438,026	2,872,714
Net current liabilities		**(2,634,684)**	(2,068,812)
Total assets less current liabilities		**(2,324,838)**	(1,749,637)

	Notes	**2023**	2022
		RMB'000	*RMB'000*
Non-current liabilities			
Interest-bearing other borrowings	*16*	**2,187**	2,533
Other long-term liabilities	*17*	**6,517**	55,993
		8,704	58,526
Net liabilities		**(2,333,542)**	(1,808,163)
EQUITY			
Share capital	*18*	**1,767**	1,767
Reserves		**(2,335,309)**	(1,809,930)
Total deficit		**(2,333,542)**	(1,808,163)

NOTES TO FINANCIAL STATEMENTS

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 and its principal place of business in Hong Kong is located at Room A5, 7/F, China United Plaza, 1008 Tai Nan West Street, Kowloon, Hong Kong. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 28 January 2014 (the "**Listing**").

The Company is an investment holding company. During the year, the Company and its subsidiaries (the "**Group**") were principally engaged in the manufacture and sale of cooking wine as well as condiment products under the brand name of "Lao Heng He" in the People's Republic of China (the "**PRC**").

Pursuant to the loan agreement dated 24 March 2019 between an independent third party (as the lender) and a wholly owned subsidiary held by the former beneficial owner Key Shine Global Holdings Limited ("**Key Shine**") (as the borrower), the loan included shares as collateral, whereby Key Shine mortgaged the shares.

In September 2023, due to the continued occurrence of defaults under the financing documents, CLSA Limited (中信里昂證券有限公司) exercised its rights under the financing documents for and on behalf of Wuxing City Investment HK Company Limited ("**Wuxing HK**") (吳興城投 (香港)有限公司) to enforce the share pledge and transfer the pledged shares from Key Shine to Wuxing HK. Immediately following the enforcement action, the Wuxing HK becomes the beneficial owner of the pledged shares.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company has changed to Wuxing HK and Huzhoushi Wuxingqu State-owned Assets Supervision and Administration Services Centre (湖州市吳興區國有資本監督管理服務中心) respectively, which were incorporated in the PRC.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") which collective term includes all applicable individual IFRSs, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**") and the applicable disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**").

The material accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended IFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 2.3.

The consolidated financial statements have been prepared on the historical cost basis.

2.2 Going concern assumption

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of its net cash used in operating activities of approximately RMB102,215,000 (2022: RMB226,802,000) and net loss of approximately RMB524,316,000 (2022: RMB486,339,000) incurred for the year ended 31 December 2023 and, as of that date, the Group had net current liabilities of approximately RMB2,634,684,000 (2022: RMB2,068,812,000), capital deficiency of approximately RMB2,333,542,000 (2022: RMB1,808,163,000) and accumulated losses of approximately RMB3,201,856,000 (2022: RMB2,677,540,000), respectively.

As at 31 December 2023, the Group's total borrowings comprising interest-bearing bank and other borrowings amounting to approximately RMB2,808,480,000 (2022: RMB2,211,564,000), of which current borrowings amounted to approximately RMB2,806,293,000 (2022: RMB2,209,031,000) and approximately RMB1,863,275,000 (2022: RMB1,671,025,000) in principal amount were overdue as disclosed in note 16 to the consolidated financial statements, while its cash and cash equivalents amounted to approximately RMB10,124,000 (2022: RMB9,806,000).

Despite of these circumstances, the consolidated financial statements have been prepared on a going concern basis on the assumption that the Group is able to operate as a going concern for the foreseeable future. In the opinion of the directors of the Company, the Group can meet its financial obligations as and when they fall due within the next year from the end of the reporting period, after taking into consideration of the measures and arrangements that the Group has implemented or is in the process of implementing as detailed below:

- The immediate holding company, Wuxing HK, has undertaken to provide continuing financial support to the Group for a period of twelve months from the date of approval of the consolidated financial statements by the directors in order to maintain the Group as a going concern;

- The Group is in negotiation with financial institutions for the renewals of the Group's short-term borrowings upon expiry, new borrowings and applying for future credit facilities. Up to the date of approval of these consolidated financial statements, the Group's major lenders, Huzhou Wuxing Chengshi Tousi 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 (formerly known as 湖州吳興南太湖建設投資有限公司) ("**南太湖**") and 湖州湖盛融資租賃有限公司 ("**湖盛融資**") have shown the positive support on the Group by not requiring the Group to repay the loan of RMB203,305,000, RMB1,998,748,000 and RMB275,987,000 and (2022: RMB170,601,000, RMB1,683,214,000 and RMB234,524,000) respectively and has undertaken to provide new financing facilities of approximately RMB150,000,000 (2022: RMB150,000,000) for a period of twelve months from the date of approval of these consolidated financial statements. Therefore, the directors of the Company are confident that the entire borrowings can be renewed upon expiration and future credit facilities can be applied based on the Group's past experience and credit history; and

- The directors have evaluated all the relevant facts available to them and made a business plan to improve its liquidity by (i) monitoring the production activities in order to fulfill the forecast production volume and meet sales forecast, (ii) taking measures to tighten cost controls over various production costs and expenses, and (iii) any feasible financial arrangement.

The directors of the Company have reviewed the Group's cash flows forecast, prepared by management which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient cash resources to satisfy its working capital and other financial obligations for the next twelve months from the end of the reporting period after having taken into account of the Group's projected cash flows, current financial resources and capital expenditure requirements with respect to the production facilities and development of its business. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2023 on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows in the near future and obtain the continuous financial support from its immediate holding company and major lenders.

Should the going concern assumption be inappropriate, adjustments may have to be made to write down the carrying values of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

2.3 ADOPTION OF NEW AND AMENDED IFRSs

New and amended IFRSs that are effective for annual periods beginning on 1 January 2023

In the current year, the Group has applied for the first time the following new and amended IFRSs, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 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 the new and amended IFRSs had no material impact on how the results and financial position 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 the sale of its products to the customers in the PRC and all of the Group's identifiable non-current assets are located in the PRC, no geographical information as required by IFRS 8 Operating Segments is presented.

Information about major customers

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

	2023	2022
	RMB'000	*RMB'000*
Customer A	**30,715**	33,558

4. REVENUE, OTHER INCOME AND GAINS

4.1 Revenue from contracts with customers

An analysis of revenue is as follows:

	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods	**258,784**	271,600

(i) Disaggregation revenue information

	2023	2022
	RMB'000	*RMB'000*
Type of goods		
Condiment products	**258,784**	271,600
Timing of revenue recognition		
Goods transferred at a point in time	**258,784**	271,600

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2023	2022
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**32,736**	34,955

(ii) Performance obligations

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

Sale of products

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

4.2 Other income and gains

	2023	2022
	RMB'000	*RMB'000*
Subsidies received *(note (a))*	**751**	2,114
Bank interest income	**18**	23
Foreign exchange gain, net	**26**	13
Compensation income *(note (b))*	**–**	14,200
Other interest income	**2,068**	2,222
Others	**130**	2,129
	2,993	20,701

Notes:

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

(b) During the year ended 31 December 2022, the Group commenced litigations against suppliers for non-performance of contracts and the court has required the defendants to pay the compensation of RMB14,200,000 to the Group.

5. OTHER EXPENSES

	2023	2022
	RMB'000	*RMB'000*
Donations	**134**	70
Surcharge for overdue tax payment *(note)*	**37,787**	56,206
Overdue interest expense *(note 16(e))*	**226,079**	179,357
Others	**388**	30
	264,388	235,663

Note:

The amount represented the provision of surcharge for overdue tax payment to be imposed by the State Administration of Taxation in the PRC.

6. LOSS BEFORE INCOME TAX

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

	Notes	2023 RMB'000	2022 RMB'000
Costs of inventories sold		**184,673**	196,784
Reversal of provision for inventories, net	*11*	**(3,038)**	(2,184)
Depreciation of owned assets		**27,138**	27,387
Depreciation of right-of-use assets		**1,345**	1,300
Amortisation of other intangible assets		**215**	310
Lease payments not included in the measurement of lease liabilities		**408**	130
Auditor's remuneration		**2,040**	3,550
(Reversal of)/Provision for impairment losses, net on:			
— trade receivables		**(577)**	(209)
— prepayment and other receivables		**2,092**	1,979
— amounts due from related companies		**(2,092)**	(2,497)
— right-of-use assets		**407**	–
		(170)	(727)
Written off of inventories		**–**	23,909
Employee benefit expenses (excluding directors' remuneration):			
— wages and salaries		**39,671**	36,839
— pension scheme contributions *(note)*		**5,609**	5,639
		45,280	42,478
Research and development costs		**13,317**	10,258
Donations	*5*	**134**	70
Foreign exchange gain, net	*4.2*	**(26)**	(13)

Note:

As at 31 December 2023, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2022: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2023	2022
	RMB'000	*RMB'000*
Interest on bank loans	**746**	–
Interest on other borrowings	**193,897**	203,598
	194,643	203,598
Interest on lease liabilities	**232**	313
	194,875	203,911

8. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands, the Group was not subject to any income tax in the Cayman Islands.

The corporate income tax of the Group in respect of its operations in Mainland China has been provided at the rate of 25% (2022: 25%) on the taxable profits, based on the existing legislation, interpretations and practices in respect thereof.

	2023	2022
	RMB'000	*RMB'000*
Current — PRC		
Under-provision in respect of the prior year	**–**	–
Total tax charge for the year	**–**	–

A reconciliation of the income tax expense applicable to loss before income tax at the statutory rate for the jurisdiction where most of the Company's subsidiaries are located to the tax expense at the effective tax rate is as follows:

	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
Loss before income tax	**(524,316)**		(486,339)	
Tax at the statutory tax rate	**(131,079)**	**25.0**	(121,585)	25.0
Lower tax rate enacted by the local authority	**454**	**(0.1)**	201	0.0
Tax effect of unrecognised temporary differences	**878**	**(0.2)**	1,969	(0.4)
Tax losses not recognised	**122,586**	**(23.4)**	102,410	(21.1)
Tax effect of expenses not deductible for tax purpose	**9,661**	**(1.8)**	18,735	(3.9)
Tax effect of income not taxable for tax purpose	**(2,500)**	**0.5**	(1,730)	0.4
Tax charge at the Group's effective rate	**–**	**–**	–	–

As at the reporting date, the Group has not recognised deferred tax assets in respect of tax losses and deductible temporary differences of approximately RMB1,552,655,000 (2022: RMB1,062,307,000) and RMB49,305,000 (2022: RMB45,793,000), respectively. Of the total unrecognised tax losses, approximately RMB1,552,655,000 (2022: RMB1,062,307,000) may be carried forward for five years from the year of incurring the loss, and the remaining unrecognised tax losses have no expiry dates. No deferred tax asset has been recognised in respect of those tax losses and deductible temporary differences due to the unpredictability of future profit streams.

9. DIVIDENDS

No dividend has been paid or declared by the Company during the years ended 31 December 2023 and 2022, nor has any dividend been proposed since the end of the reporting period.

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

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 578,750,000 (2022: 578,750,000) in issue during the year.

	2023	2022
	RMB'000	*RMB'000*
Loss attributable to ordinary equity holders of the Company *(RMB'000)*	**524,316**	486,339
Weighted average number of ordinary shares in issue *(in thousands)*	**578,750**	578,750
Loss per share attributable to ordinary equity holders of the Company		
— Basic and diluted *(RMB)*	**0.91**	0.84

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2023 and 2022 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

11. INVENTORIES

	2023	2022
	RMB'000	*RMB'000*
Raw materials	**11,040**	9,784
Work in progress	**616,847**	617,627
Finished goods	**18,012**	19,329
	645,899	646,740

The Group has a significant balance of inventories and needs to maintain the majority of its base wine at an appropriate level for a period over one year to meet the future production needs. The determination of the value of inventories, which are stated at the lower of cost and net realisable value, involved significant estimation, which were influenced by the assumptions concerning future sales and usage and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items.

No obsolete inventories which are material to the financial statements have been written off during the year ended 31 December 2023. During the year ended 31 December 2022, the Group had written off the obsolete inventories of approximately RMB23,909,000 mainly due to the decrease in the estimated net realisable value of certain condiment products as a result of change in market condition and the cessation of sales to the Associates of former beneficial owner of the Group, Mr. Chen Weizhong from October 2022.

At 31 December 2023, the carrying amount of inventories included provision of approximately RMB579,000 (2022: RMB3,617,000), which is determined with reference to the net realisable value of the inventory items. The reversal of provision approximately RMB3,038,000 (2022: additional provision approximately RMB2,184,000) was made during the year ended 31 December 2023.

At 31 December 2023, the Group's inventories with a carrying amount of RMB487,255,000 (2022: RMB556,115,000) were pledged to secure other borrowings granted to the Group, as further detailed in note 16(f) to the consolidated financial statements.

12. TRADE RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
Trade receivables, gross	**23,229**	23,949
Less: Allowance for credit losses	**(2,454)**	(3,465)
Trade receivables, net	**20,775**	20,484

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

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**16,248**	16,545
3 to 6 months	**3,198**	2,932
6 months to 1 year	**1,329**	1,007
	20,775	20,484

13. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2023	2022
	RMB'000	*RMB'000*
Prepayments *(note (a))*	**6,339**	11,026
Less: Impairment	**(1,949)**	(1,949)
Value-added tax recoverable	**91,001**	90,439
Deposits and other receivables *(notes (a) and (b))*	**38,345**	26,618
Less: Allowance for credit losses	**(3,704)**	(1,612)
	130,032	124,522
Less: Portion classified as non-current assets	**(3,865)**	(6,673)
Current portion included in prepayments, other receivables and other assets	**126,167**	117,849

Notes:

(a) Details of prepayments, deposits and other receivables as at 31 December 2023 and 2022 are as follows:

	2023	2022
	RMB'000	*RMB'000*
Prepayments for fixed assets	**4,234**	6,673
Prepayments for procurements of condiment products	**228**	1,936
Other prepayments	**1,877**	2,417
Deposits and other receivables *(note (b))*	**38,345**	26,618
	44,684	37,644
Less:		
Portion classified as non-current assets	**(3,865)**	(6,673)
Current portion included in prepayments, other receivables and other assets	**40,819**	30,971

(b) Included in the balances was mainly the guarantee deposit paid for sale and leaseback arrangements (note 16(h)) of approximately RMB18,850,000 (2022: approximately RMB18,795,000).

During the year ended 31 December 2023, due to the change in the beneficial owner of the Group as set out in note 1 to the consolidated financial statements, the former related companies have ceased to be related companies of the Group with net balances of RMB11,101,000, net of ECL allowances of RMB2,092,000. Balances were reclassified from amounts due from related companies to other receivables. Except for balance amounting to RMB2,092,000 which remains as Stage 3, the remaining balance remains as Stage 1. The ECL allowances on amounts due from related companies recognised amounting to RMB2,092,000 were fully reversed and hence the ECL allowances on other receivables amounting to RMB2,092,000 were recognised during the year ended 31 December 2023.

Impairment analysis is performed at each reporting date and ECLs are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic condition, as appropriate. Except the above balance which has classified as Stage 3, other financial assets included in the above balances were categorised in Stage 1 at the year of the reporting period. In calculating the ECL rate, the Group considers the historical loss rate and adjusts for forward-looking data.

Except the above-mentioned balance which is categorised as Stage 3, other financial assets included in the above balance relate to receivables for which there was no recent history of default and past due amounts.

14. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**27,763**	31,521
3 to 6 months	**14,445**	16,322
Over 6 months	**15,060**	2,177
	57,268	50,020

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.

15. OTHER PAYABLES AND ACCRUALS

		2023	2022
	Notes	***RMB'000***	*RMB'000*
Contract liabilities	*(a)*	**50,097**	32,736
Other tax payables	*(b)*	**61,020**	165,527
Other payables and accruals	*(c)*	**311,897**	204,282
Amount due to a director		**6**	9
Salary payables		**9,435**	9,150
		432,455	411,704

Notes:

(a) Details of contract liabilities are as follows:

	2023	2022
	RMB'000	*RMB'000*
Short-term advances received from customers		
Sales of goods	**50,097**	32,736

Contract liabilities include short-term advances received to deliver products. The increase in contract liabilities in 2023 was mainly due to the increase in short-term advances received from customers in relation to the provision of sale of goods at the end of the year.

(b) Included in the balances was mainly the value added tax payable of approximately RMB47,629,000 (2022: RMB149,991,000).

(c) Balance includes the provision of surcharge for overdue tax payment, equipment and construction costs payables of approximately RMB214,949,000 and RMB14,516,000 respectively (2022: RMB178,942,000 and RMB7,473,000).

During the year ended 31 December 2023, due to the change in the beneficial owner of the Group as set out in note 1 to the consolidated financial statements, the below balances were reclassified:

— Key Shine ceased to be the ultimate holding company of the Group and the respective balances of RMB48,751,000 has been reclassified from amount due to ultimate holding company to other payables; and

— Yilong Country Zhongwei Food Co., Ltd. and Zhejiang Ruoxiachun Brewing Co., Ltd. ceased to be the related companies of the Group and the respective balances of RMB1,137,000 and RMB10,000,000 have been reclassified from amounts due to related parties to other payables respectively.

16. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2023			31 December 2022		
	Effective interest rate ***(%)***	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Lease liabilities	**4.75–4.90**	**2028**	**911**	4.75 –4.90	2023	1,308
Bank loans — unsecured [(a)(b)]	**5.80**	**2024**	**49,000**	N/A	N/A	–
Other borrowings — unsecured [(c)(e)(g)]	**7.00–24.00**	**2024**	**278,342**	7.00–24.00	2023	119,384
Other borrowings — secured [(d)(e)(f)(g)]	**10.65–15.32**	**2024**	**2,478,040**	10.65–15.32	2023	2,088,339
			2,806,293			2,209,031
Non-current						
Lease liabilities	**4.75–4.90**	**2024-2029**	**2,187**	4.75–4.90	2023-2029	2,533
Total			**2,808,480**			2,211,564
Analysed into:						
Within one year or on demand			**2,806,293**			2,209,031
In the second year			**946**			857
In the third year to fifth years, inclusive			**1,241**			1,642
Beyond five years			**–**			34
			2,808,480			2,211,564

(a) As at 31 December 2023, the Group's total facilities of bank loans amounted to RMB49,000,000 (2022: Nil), of which RMB49,000,000 (2022: Nil) had been utilised.

(b) As at 31 December 2023, included in the balances was bank loans amounting to RMB49,000,000 (2022: Nil) which was unsecured, bearing interest at 5.80% (2022: Nil) per annum and repayable within one year (2022: Nil).

(c) As at 31 December 2023, included in the balances was other borrowings amounting to approximately RMB278,342,000 (2022: RMB119,384,000) which was unsecured, bearing interest at 7.00%–24.00% (2022: 7.00%–24.00%) per annum and repayable within one year (2022: repayable within one year).

(d) As at 31 December 2023, included in the balances was other borrowings amounting to approximately RMB2,478,040,000 (2022: RMB2,088,339,000) which was secured, bearing interest at 10.65%–15.32% (2022: 10.65%–15.32%) per annum and repayable within one year (2022: repayable within one year), in which RMB203,305,000,RMB1,998,748,000 and RMB275,987,000 and (2022: RMB170,601,000, RMB1,683,214,000 and RMB234,524,000) were from the fellow subsidiaries of the Group, 湖州吳興城市, 南太湖 and 湖盛融資 respectively.

(e) As at 31 December 2023, the Group's other borrowings amounting to approximately RMB1,863,275,000 (2022: RMB1,671,025,000) in principal amount were overdue and the related overdue interest expense of approximately RMB226,079,000 (2022: RMB179,357,000) (note 5) was recognised for the year ended 31 December 2023.

(f) 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:

		2023	2022
	Note	***RMB'000***	*RMB'000*
Property, plant and equipment		**189,337**	211,737
Right-of-use assets		**46,960**	48,260
Inventories	*11*	**487,255**	556,115
		723,552	816,112

(g) As at 31 December 2023, included in the balances was other borrowings amounting to approximately RMB19,144,000 (2022: RMB17,075,000) that were withdrawn on behalf of a former related company, Zhejiang Zhongwei Brewery Limited ("**Zhejiang Zhongwei**"). The amount was unsecured, bore interest at 24.00% per annum and repayable on demand.

(h) The amount included certain sales and leaseback arrangements of machinery and equipment with remaining lease terms of 1 year (2022: 1 year) as at 31 December 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.

17. OTHER LONG-TERM LIABILITIES

	2023	2022
	RMB'000	*RMB'000*
Other long-term payables *(note)*	**–**	50,000
Provision for long service payment	**6,517**	5,993
	6,517	55,993

Note:

On 6 May 2016, two wholly-owned subsidiaries of the Company, Huzhou Chenshi Tianniang Industrial Co., Limited ("**Huzhou Chenshi**") 湖州陳氏天釀實業有限公司 ("**湖州陳氏**") and Huzhou Laohenghe Brewery Co., Limited ("**Huzhou Laohenghe**") 湖州老恒和釀造有限公司 ("**湖州老恒和**"), which is also a wholly-owned subsidiary of Huzhou Chenshi entered into an investment agreement with China Development Fund Co., Ltd. (the "**CD Fund**") (國開發展基金有限公司) (the "**Investment Agreement**"). Pursuant to the Investment Agreement, the CD Fund agreed to subscribe for a 3.5% equity interest in Huzhou Laohenghe at a total cash consideration of RMB133,000,000 (the "**Capital Investment**") and Huzhou Laohenghe shall pay the CD Fund a fixed annual return equal to 1.2% of the Capital Investment from the date of the agreement. In addition, Huzhou Chenshi has a contractual obligation to repurchase the entire equity interest in Huzhou Laohenghe held by the 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 the CD Fund pursuant to the Investment Agreement, the Capital Investment of RMB133,000,000 was recorded as a financial liability.

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

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

	2023	2022
	RMB'000	*RMB'000*
Other long-term payables	**50,000**	100,000
Less:		
Portion classified as current portion included in other liabilities	**(50,000)**	(50,000)
Non-current portion		
More than 1 but within 5 years	**–**	50,000

18. SHARE CAPITAL

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

	Number of shares	RMB'000
Authorised:		
Ordinary shares of USD0.0005 (RMB0.00305) each		
As at 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	**1,000,000,000**	3,050
Issued and fully paid:		
Ordinary shares of USD0.0005 (RMB0.00305) each		
As at 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	**578,750,000**	1,767,000

19. EVENTS AFTER THE REPORTING PERIOD

In 2024, 湖洲吳興城市, 南太湖 and 湖盛融資 have confirmed that they do not intend to demand payment from the Group for the amounts due to them for a period of twelve months from the date of approval of these consolidated financial statements.

On 2 February 2024, the Group settled other liabilities amounted of RMB50,000,000 by bank transfer. Upon the completion of settlement, around 3.5% equity interest in Huzhou Laohenghe should be transferred to Huzhou Chenshi. The transfer of this equity interest was not completed at the date of approval of the consolidated financial statements.

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, fermented bean curd and compound condiments. In 2023, we attained the following achievements:

1. We were jointly designated by the Ministry of Agriculture and Rural Affairs of the PRC, the National Development and Reform Commission and other departments as the "National Key Leading Agricultural Industrialisation 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 recognised as "Zhejiang Province Famous, Special and Excellent Food (浙江省名特優食品)" by the Zhejiang Food Industry Organisation (浙江省食品工業協會) and included in the Catalogue of Chinese Characteristic and Flavourful Food Iconic 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 Cereal-based Brewed Cooking Wine Evaluation;

4. Lao Heng He cooking wine (老恒和料酒) was awarded the title of "2023 Best-selling Cooking Wine (2023料酒暢銷金品)" by FMCG Weekly (快消品週刊) for offline sales of cooking wines in 2023 and the market share of the Group's offline sales of cooking wines was 17.1% in 2023, ranking first in the industry for seven consecutive years; and

5. Our Lao Heng He Agricultural Products Biobrewing Provincial Key Agricultural Enterprise Research Institute (老恒和農產品生物釀造省級重點農業企業研究院) was once again approved by the Department of Science and Technology of Zhejiang Province.

In 2023, as nationwide pandemic measures continued to cast a long shadow over the market's expectation for recovery and the consumption market veered between highs and lows, consumers' purchasing power continued to decline under the influence of various factors including global economic recession, inflation, fiscal crisis and intensifying trade wars. Meanwhile, as the condiment industry continued to be weighed down by factors including rising raw material costs, intensifying competition and weak consumption, the outlook remained less than optimistic for the entire condiment market, and enterprises were generally facing enormous pressure in the growth of their business performance. In the first half of the year, the overall consumer market and all channels maintained a positive momentum as a favorable result of the full recovery from the pandemic. In the second half of the year, the economy had yet to recover; on the contrary, the situation worsened and sales continued to slow down, resulting in longer inventory turnover and less frequent purchases by distributors. The Group promoted the sales growth of its products through various means, such as stepping up promotional efforts, launching the Hundred-Day Campaign, core sample stores, and product promotions amidst the abovementioned deteriorating situation.

In 2023, in terms of 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 and business trainings, so as to enhance the brand image of "Lao Heng He (老恒和)" among consumers, and once again put forward a series of products premised upon the core concepts that revolve around the notion of time, including fragrance of time (時間至香) "authentic fine cooking wine and old-styled Xiaotan wine (正宗好料酒、古法小壇釀)" , "freshness of time (時間至鮮)" soy sauce and "beauty of time (時間至美)" rice vinegar. The Group expanded and developed hot pot base, oyster sauce and other products. By adopting a brand new appearance under our "grand brand, big single product, national product and wide-ranged product (大品牌、大單品、國民產品、寬產品)" strategy, the Group strived to capture the high ground in the condiment and cooking wine industries.

In 2023, in order to further enhance the brand awareness and influence of the Company through advertising, promotion and online events, the Group became the title sponsor of the "2023 Wuxing New Youth City Super Music Festival (2023吳興新青年城市超級音樂節)", and 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)". In the second half of the year, we continued our promotion of the 2.5L Lao Heng He Huadiao Wine in collaboration with East Buy Holding Limited and multiple influeners, with a view to rapidly building our presence on the Douyin platform and bolstering our customers' 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 Group's original 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 were established, and a cohesive, creative and vibrant management team has been created through the recruitment of external talent and cultivation of internal talent during the past three years.

In terms of product research and development, in 2023, the Group jointly established a research and development team 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 Jiangnan University and Zhejiang Gongshang University to carry out research on brewing theories with a focus on enhancing the quality and innovating the technology of traditional brewed products including cooking wines and rose rice vinegar (玫瑰米醋) and cultivating bacterial strains with excellent brewing capabilities. To pave the way for standardising our technological procedures of production, we have successfully developed and launched several new products while improving the technology of the new production lines of soy sauce and soybean paste as well as bringing them into production.

In respect of product quality control, in 2023, the Group continued to strengthen its food safety technology protection capability by deepening the integration and collaboration between industry, academia and research facilities, upgrading its experimental equipment and making sustained technological breakthroughs and enhancing technical support. We have strengthened and improved the food safety control system to strictly monitor 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 labour efficiency of the workshop and reduce production cost, so that the products of the Company have more core competitive strengths in the market.

In 2023, the Group achieved sales revenue of approximately RMB258.8 million, representing a decrease of approximately RMB12.8 million, or approximately 4.7% as compared to the corresponding period in 2022. On one hand, the industry was still subject to the combined effect of factors such as rising raw material costs, intensifying competition, weak consumption and continuous decline in purchasing power. On the other hand, our sales were affected in varying degrees by the upgrading and renovating process of the Group's existing equipment.

In 2023, cooking wine products remained a major source of our revenue, accounting for approximately 66.4% 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 2023 amounted to approximately RMB26.3 million, accounting for approximately 10.2% of our total revenue. In terms of marketing strategy, we continued to broaden our network of strong distributors and further accelerated the penetration into fourth and fifth-tier cities in 30 provinces, autonomous regions and municipalities across the country. The Company will continue to promote the expansion of multiple channels, and at the same time focus on the development of online channels and catering channels in the Yangtze River Delta region, increase expenditure and increase the shelf rate of end products through a number of preferential measures, so that Lao Heng He series of products will benefit every township and community in the region. In line with the aforementioned market penetration strategy and in response to the expected uncertainties in the market environment, we have made adjustments to our product structure by continuing to develop high-end cooking wine products with good value for money to compensate for other product categories. At the same time, we have adopted quality improvement and cost control measures to expand the economies of scale and reduce product costs. As a result, the gross profit margin of the Group's products increased from approximately 27.5% for 2022 to approximately 28.6% for 2023.

The loss attributable to ordinary equity holders of the Company was approximately RMB524.3 million (2022: RMB486.3 million), representing an increase of approximately 7.8% as compared to the corresponding period in 2022, mainly due to the abovementioned decrease in revenue and increase in cost of sales 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 establishing Lao Heng He as a diversified condiment manufacturer with cooking wine as the leading product.

Our profitability mainly depends on product pricing, cost of sales, marketing strategies and product structure and composition, as well as factors during the reform of the Company. 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 education, awareness and habits in the consumption of cooking wine products, as well as the competition between 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) the more complicated sales policies and credit terms management due to the rapid increase in the number of distributors; (6) external factors brought by new entrants and the adverse impacts from the COVID-19 pandemic; and (7) the impact of uncertain factors under the new economic landscape.

Financial Review

Overview

The key financial indicators of the Group are as follows:

	Year ended 31 December		Year-on-year
	2023	2022	Change
	RMB'000	*RMB'000*	%
Income statement items			
Revenue	**258,784**	271,600	(4.7)
Gross profit	**74,111**	74,816	(0.9)
Loss attributable to owners of the Company	**(524,316)**	(486,339)	7.8
Loss before interest, taxes, depreciation and amortisation ("**LBITDA**")	**(301,375)**	(253,431)	18.9
Loss per share *(RMB) (note (a))*	**(0.91)**	(0.84)	8.3
Selected financial ratios			
Gross profit margin (%)	**28.6**	27.5	4.0
Net loss margin (%)	**(202.6)**	(179.1)	13.1
LBITDA margin (%)	**(116.5)**	(93.3)	24.9
Return on equity holders' equity (%)	**(22.5)**	(26.9)	(16.4)
Gearing ratio *(note (b))* (%)	**328.1**	273.8	19.8

Notes:

(a) Please refer to note 10 to the consolidated financial statements of this announcement for the calculation of loss per share.

(b) The gearing ratio is based on net debt divided by total deficit plus net debt as at 31 December 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 immediate holding company, amount due to ultimate holding company, interest-bearing bank and other borrowings, provision for loss on unauthorised guarantees and other long term liabilities.

Revenue

The revenue of the Group decreased by 4.7% from RMB271.6 million in 2022 to RMB258.8 million in 2023, primarily attributable to (i) the overall lackluster landscape of the industry in 2023 and the growing uncertainties of consumers about their future income, which have continued to dampen consumption and consumer's purchasing power during the reporting period; (ii) the condiment industry continued to be affected by the combined effect of rising raw material costs and intensifying competition; and (iii) the adjustment to the Group's distribution network and the upgrading and renovating process of the Group's existing equipment which affected our sales in varying degrees.

Revenue from cooking wine products decreased by 2.5% from RMB176.2 million in 2022 to RMB171.8 million in 2023, primarily due to a combination of factors including the adjustment to the Group's distribution network and the upgrading and renovating process of the Group's existing equipment in 2023.

Revenue from the Group's soy sauce products increased by 9.5%, from RMB23.8 million in 2022 to RMB26.3 million in 2023, primarily due to the adoption of the "one heart with two wings (一心兩翼)" product strategy this year, with "cooking wine" as the core product and other products as complement, focusing on the development of new products with zero-additive concept, introducing new categories, and expanding the soy sauce market share.

Revenue from the Group's rice vinegar products decreased by 16.3% from RMB17.8 million in 2022 to RMB14.9 million in 2023, primarily due to the growing uncertainties of consumers about their future income, which have continued to dampen consumption and consumer's purchasing power during the reporting period and cause a decline in the sales of high-end rice vinegar products.

In addition to launching new products into the market and developing our sesame oil products, we also adjusted the product portfolio of our other products during the year by downsizing products with poor market performance and focusing on products with good market reception. As a result, the Group's revenue from other products decreased by 14.9% from RMB53.8 million in 2022 to RMB45.8 million in 2023.

Cost of Sales

Our cost of sales decreased by 6.1% from RMB196.8 million in 2022 to RMB184.7 million in 2023. The decrease in cost of sales was primarily attributable to the combined effect of the decrease in revenue and decrease in prices of some of the major raw materials.

Gross Profit and Gross Profit Margin

Our gross profit decreased by 0.9% from RMB74.8 million in 2022 to RMB74.1 million in 2023. The gross profit margin increased from 27.5% in 2022 to 28.6% in 2023, primarily due to a combination of factors including the decline in the purchase price of raw materials and packaging materials, as well as the effective control of costs by the Group during the reporting period.

Other Income and Gains

Other income and gains decreased by 85.5% from RMB20.7 million in 2022 to RMB3.0 million in 2023. Other income and gains primarily include subsidies received, bank interest income and foreign exchange gain, net. The decrease in other income and gains was primarily due to no compensation income received and the decrease in government subsidies received in 2023.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising expenses, marketing expenses, promotion expenses, travelling expenses, and remuneration of our sales employees.

Our selling and distribution expenses increased from RMB74.7 million in 2022 to RMB95.2 million in 2023, and the distribution expenses as a percentage of the Group's revenue increased from 27.5% in 2022 to 36.8% in 2023, primarily due to an increase in marketing expenses.

Administrative Expenses

Administrative expenses increased by 6.1% from RMB44.4 million in 2022 to RMB47.1 million in 2023. The increase in administrative expenses was primarily due to the increase in management personnel salaries and research and development costs during the reporting period.

Finance Costs

Finance costs decreased by 4.4% from RMB203.9 million in 2022 to RMB194.9 million in 2023. The decrease in finance cost which was mainly attributable to the fact that the finance lease interest expenses were fully amortised during 2023. There was no addition of finance lease.

Loss before Income Tax

Due to the aforesaid reasons, the loss before income tax increased by 7.8% from RMB486.3 million in 2022 to RMB524.3 million in 2023.

Income Tax Expense

The corporate income tax of the Group in respect of its operations in China has been provided at the rate of 25% (2022: 25%) on the taxable profits, based on the existing laws, interpretations and practices in respect thereof.

Income tax expense was nil in 2022 and 2023, mainly due to loss arising from the business.

Loss Attributable to Ordinary Equity Holders of the Company

Loss attributable to ordinary equity holders of the Company increased by 7.8% from RMB486.3 million in 2022 to RMB524.3 million in 2023, which was mainly attributable to the increase in net loss as a result of the aforesaid reasons.

Loss per Share Attributable to Ordinary Equity Holders of the Company

Loss per share increased from RMB0.84 in 2022 to RMB0.91 in 2023. The increase in loss per share was attributable to the increase in loss attributable to ordinary equity holders of the Company.

Net Loss Margin

Net loss margin increased by 13.1% from 179.1% in 2022 to 202.6% in 2023, which was primarily attributable to the combined effect 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 31 December 2023 and 2022 are as follows:

	2023	2022
	RMB'000	*RMB'000*
Prepayments for fixed assets	**4,234**	6,673
Prepayments for procurements of condiment products	**228**	1,936
Other prepayments	**1,877**	2,417
Deposits and other receivables	**38,345**	26,618
	44,684	37,644
Less: Portion classify as non-current assets	**(3,865)**	(6,673)
Current portion included in prepayments, deposits and other receivables	**40,819**	30,971

Trade receivables

Trade receivables increased from RMB20.5 million as at 31 December 2022 to RMB20.8 million as at 31 December 2023 and the turnover days of trade receivables increased from 32 days in 2022 to 33 days in 2023. The turnover days of trade receivables increased slightly mainly because nationwide pandemic control measures adopted in 2023 continued to cast a long shadow over the market's expectation for recovery and the consumption market veered between highs and lows, the Group has extended the credit period for customers of all offline shopping and supermarket channels. Details of the ageing analysis of trade receivables are set out in note 12 to the consolidated financial statements in this announcement.

In 2023, we classified our distributors into two categories, namely core distributors and non-core distributors, based on their scale, channels, capability and cooperativeness, local influence and other factors, and provided them with our resources in respect with terminal construction and market development for their orderly development and reasonable allocation, with an aim of molding all of them to be our core distributors.

Inventories

As at 31 December 2023, the carrying amount of the Group's inventories amounted to RMB645.9 million (2022: RMB646.7 million), of which RMB465.3 million (2022: RMB534.7 million) were base wine.

Inventories decreased from RMB646.7 million as at 31 December 2022 to RMB645.9 million as at 31 December 2023, primarily due to the decrease in the production volume of base wine during the reporting period. A substantial part of our inventories are work in progress, mainly representing base wine, base soy sauce, semi-finished soybean paste and base vinegar in the brewing period. Due to the long production cycle and short sales cycle, we reserve certain amount of well-aged base wine to cope with the sales growth in the future.

We regularly monitor the inventory level maintained by our distributors. Our sales representatives maintain frequent telephone or email communications with our distributors to inquire about their monthly inventory reports, and pay regular visits to their warehouses. Our sales representatives conduct surveys on the inventory maintained by our distributors at least once a week on Saturday, which is reported to the Company weekly, and pay regular visits to the warehouses of distributors to ensure that they maintain optimal stock level and our products are sold to end consumers 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 minimise excess inventory.

As at 31 December 2023, our inventories with a carrying amount of RMB487.3 million (31 December 2022: RMB556.1 million) were pledged to secure other borrowings granted to the Group. For details please refer to note 16(f) to the consolidated financial statements in this announcement.

Borrowings

As at 31 December 2023, our total borrowings amounted to RMB2,808.5 million (31 December 2022: RMB2,211.6 million).

Our principal sources of liquidity include cash generated from business operation and other borrowings. The cash from these sources are primarily used for our working capital, the expansion of production capacity, other capital expenditures and debt service requirements.

Foreign currency risks

The Group mainly operates in the PRC and its operations mainly settled in Renminbi. The Group will closely monitor the fluctuations of the Renminbi exchange rate and give prudent consideration as to entering into any currency swap arrangement as and when appropriate for hedging corresponding risks. For the year ended 31 December 2023, the Group had not engaged in hedging activities for managing foreign exchange rate risk.

Liquidity and Financial Resources

As at 31 December 2023, we had cash and cash equivalents of RMB10.1 million (31 December 2022: RMB9.8 million). As at 31 December 2023, we had interest-bearing bank and other borrowings of an aggregate amount of RMB2,808.5 million (31 December 2022: RMB2,211.6 million), which were denominated in RMB with interest rates from 4.75% 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.

GEARING RATIO

The gearing ratio of the Group was 328.1% as at 31 December 2023, representing an increase of 19.8% over 2022.

The gearing ratio is based on net debt divided by total deficit plus net debt as at 31 December 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 immediate holding company, amount due to ultimate holding company and interest-bearing bank and other borrowings, provision for loss on unauthorised guarantees and other long term liabilities.

CAPITAL COMMITMENT

Capital commitment as at 31 December 2023 amounted to RMB19.7 million (31 December 2022: RMB14.8 million), which was mainly related to equipment installation and ancillary engineering works in condiment workshop.

CONTINGENT LIABILITIES

As at 31 December 2023, the Group did not have other material contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2023, our inventories with a carrying amount of RMB487.3 million, property, plant and equipment with a carrying amount of RMB189.3 million and leasehold land with a carrying amount of RMB47.0 million were pledged to secure general banking facilities granted to us.

Except as disclosed in this announcement, to the best knowledge and belief of the Directors, we have not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third party. We do not have any interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engage in leasing or hedging or research and development or other service.

MATERIAL ACQUISITION AND DISPOSAL

The Company had no material acquisition and disposal as at 31 December 2023.

SIGNIFICANT INVESTMENTS HELD

Our Group did not hold any significant investments during the year ended 31 December 2023.

FUTURE PROSPECTS

Looking forward to 2024, the trend of the national economy to rebound and improve in the long term remains intact, the Central Economic Work Conference put forward the twelve-word policy of "pursuing progress while ensuring stability, facilitating stability through progress, and prioritising establishment of new rules before abolishing the old ones (穩中求進、以進促穩、先立後破)", suggesting "stability" to be the foundation with "progress" playing an instrumental role and "abolishing' being both a condition and outcome. Nonetheless, the condiment industry is still facing a lackluster demand and consumer confidence amid stiffening competition and an ever changing market environment. In particular, the changes in the market environment continue to polarise the landscape and create demand for both high-end products and value-for-money options at the same time. Meanwhile, the rise of discount retail channels and the pursuit of simplicity and high efficiency at the retail end have presented consumers with even more choices. In spite of the challenges and opportunities, the China Time-honored Brand products have remained largely popular among consumers given their premium quality and high value for money, and nutritiousness, safety, tastiness and convenience continue to be the essence of the innovation and development of the condiment cooking wine industry.

The Group insists on being consumer-oriented and preserves its quality while practicing and conveying the brand philosophy of "perseverance combined with goodnaturedness and creditworthiness (恒以持之、和信為本)" through its products and generating resonance with the consumers. Meanwhile, we make good use of our strengths to constantly innovate to meet consumers' demand for more personalised, diversified, healthy and faster products and deliveries, and provide good-looking, high quality and safer, more nutritious and healthier flavours to consumers.

In the Group's latest development strategic plan for the condiments and cooking wine industry, we hold on resolutely to our orientation towards natural, healthy and nutritious products (encompassing both organic and functional components), strictly abide by the food safety regulations, and remain dedicated to imbuing the richness of the Chinese cuisine culture into the daily culinary rituals of our fellow countrymen. As an industry leader, we actively promote the integration between food technology and production practices, and are committed to becoming a publicity ambassador for the cooking wine industry as well as a trusted and reliable seasoning knowledge consultant for consumers.

With the effective implementation of national brewing and cooking wine standards and market standardisation proceeding at a faster pace, the cooking wine industry has entered a new era with "pure brewing" dominating the market and gradually taking the place of traditionally "prepared" and "blended" condiment products, auguring a similar trend in the industry's future development. Accordingly, the Group has planned to strengthen the publicity and promotion over the sources of raw materials for production, its wine quality assurances, year of brewing, the unique craft employed and its applications, etc., to guide and cultivate consumers' usage habits, with a view to increasing the market share of the Group's cooking wine products.

In response to the increasingly stringent food safety regulatory environment and environmental protection policy requirements, the Group, as a leader in the realm of base wine manufacturing, has demonstrated remarkable competitiveness in terms of technological advantages, financial strength, market influence and resilience against risks. Riding on its strong brand recognition, modernised and upgraded traditional craftsmanship, a well-developed and mature quality control system and an efficient product research and development system, the "Lao Heng He" brand cooking wine products are poised to achieve broader room of development.

In addition to consolidating its leading position in the mid-to-high-end cooking wine and cereal-based brewed cooking wine markets, the Group maintains a diversified product structure strategy by expanding the breadth of its product lines laterally and deepening its product mix vertically to address market demand proactively and deliver a variety of green, healthy and palatable condiments. The Group will continue to innovate and upgrade alongside dimensions ranging from bacterial strain research, smart brewing, online quality control and spice craft process improvement, with a view to driving the enterprise's sustainable development through technological innovation, solidifying and strengthening the leading position of "Lao Heng He" in the cooking wine market, fulfilling its promise of being the "most trusted partner" and delivering safe, healthy and delectable cooking wine product experience to consumers. In the face of fierce market competition, we will differentiate ourselves with our impeccable quality and distinguished performance to gain deep trust from consumers, and ultimately achieve sustainable development and value growth of the enterprise.

Therefore, we believe that our upgraded "Lao Heng He" products will continue to grow in China.

GOALS AND STRATEGIES

The gross domestic product (GDP) of the PRC in 2024 is expected to grow by 5.0% year-on-year, with "pursuing progress while ensuring stability, facilitating stability through progress, and prioritising establishment of new rules before abolishing old ones (穩中求進、以進促穩、先立後破)" being the main tenor for the economic work in the "Year of Consumption Promotion (消費促進年)" in 2024. Under the new economic landscape, our sales strategy remains consumer-oriented and offering quality and affordable products to meet the needs of different consumers. With a "diversifying" approach, we will direct our resources towards delivering products that tap into different sales channels to secure higher customer loyalty. We are committed to delivering better, safer, more convenient, healthier and more nutritious naturally brewed condiments.

At the "Year of Major Projects (大抓項目年)" conference held by Huzhou Wuxing City Investment Development Group Co., Ltd. in February 2024, the Group has set goals and directions that centre around expanding customer base, increasing revenue, improving quality, controlling costs, and promoting innovation. The Group has also mapped out its future tactical approach of "one heart with two wings (一心兩翼)" and its continued focus on the operations. 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 environment, the Group still looks to the future with eager anticipation. The Group will keep an eye on the development of other aspects of the condiment industry to drive further growth of the Group's business.

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 strengthen corporate management, recruit outstanding talents, and increase investment in business team building and employee training. On the other hand, we will enrich the company's product structure and continue to step up its research and development efforts to launch more high-end products of various categories and with high cost performance that meets the public's consumption ability. In terms of broadening our network of distributors, we will continue our collaboration with promising and powerful online platforms and offline distributors via our diversified development channels, and work proactively to increase the market share of the "Lao Heng He" brand in the Chinese market.

We have also actively expedited the development of new retail models, platforms, discount retail channels, enriched our online offerings, and created 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" strives to become a preferred choice of consumers.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after 31 December 2023. For other subsequent events, please refer to note 19 to the consolidated financial statements.

EMPLOYEES

As at 31 December 2023, the Group had approximately 528 full-time employees (31 December 2022: 535). The employees' remuneration packages are determined with reference to their experience and qualifications and general market conditions. The remuneration policies, bonus, evaluation systems and training programs for employees of our Group were implemented continuously according to policies disclosed in the 2022 annual report and no change has been made in 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2023.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2023.

CLOSURE OF REGISTER OF MEMBERS FOR THE 2024 AGM

For the purpose of determining the rights to attend and vote at the Company's forthcoming annual general meeting to be held on 28 May 2024 (the "**2024 AGM**") , the register of members of the Company will be closed from 23 May 2024 to 28 May 2024 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the 2024 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 22 May 2024.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company had complied with the code provisions set out in the Corporate Governance Code contained in Appendix C1 to the Listing Rules during the year ended 31 December 2023.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining and implementing a high standard of corporate governance practices.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuer" (the "**Model Code**") set out in Appendix C3 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors of the Company and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Upon specific enquiry, all Directors of the Company confirmed that they have complied with the Model Code during the year ended 31 December 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 year ended 31 December 2023.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, Grant Thornton Hong Kong Limited (the "**Auditor**"), to the amounts set out in the Company's consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by the Auditor on the preliminary announcement.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report from the independent auditor of the Group on the consolidated financial statements of the Group for the year ended 31 December 2023.

Material Uncertainty Related to Going Concern

We draw attention to note 2.2 to the consolidated financial statements, which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee which comprises all independent non-executive Directors, namely Mr. Ng Wing Fai (Chairman), Mr. Sun Jiong and Mr. Shen Zhenchang has reviewed the consolidated financial statements of the Group for the year ended 31 December 2023, including accounting principles and policies adopted by the Group, and discussed internal controls and financial reporting matters.

The Audit Committee has reviewed the remuneration and independence of the auditor of the Company, Grant Thornton Hong Kong Limited, and recommended that the Board re-appoint Grant Thornton Hong Kong Limited as the Company's auditor for 2024, which is subject to the approval of the shareholders of the Company at the 2024 AGM.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.hzlaohenghe.com. The 2023 annual report of the Company will be dispatched to the shareholders of the Company and published on the above-mentioned websites on or before 30 April 2024.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board
Honworld Group Limited
Chen Wei
Chairman

Hong Kong, 28 March 2024

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