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華潤啤酒(控股)有限公司

China Resources Beer (Holdings) Company Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 291)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

- The consolidated turnover of the Group for the first half of 2020 was RMB17,408,000,000, representing a decrease of 7.5% compared with the same period of last year which was mainly affected by COVID-19
- The Group's earnings before interest and taxation and profit attributable to shareholders of the Company in the first half of 2020 increased by 6.0% and 11.1% to RMB2,790,000,000 and RMB2,079,000,000 respectively over the same period of last year
- In the first half of 2020, the overall beer sales volume of the Group saw a 5.3% year-on-year drop to approximately 6,039,000 kiloliters, outperforming the industry. Of which, the overall beer sales volume of the Group in the second quarter recorded a better growth compared with the same period of last year
- The sales volume of the mid- to high-end beer in the first half of 2020 decreased by 6.2% year-on-year. However, benefitting from the introduction of the Heineken® international brand last year, together with the resumption of growth in beer sales volume in various segments in the second quarter of 2020, sales volume of the sub-high-end beer segment and above for the first half of 2020 increased by 2.9% year-on-year, while the product mix has further improved. The Group continued with its product portfolio diversification and launched the high-end beer product "Heineken® Silver" beer in the second quarter of 2020
- The Board has declared an interim dividend of RMB0.128 per share

FINANCIAL HIGHLIGHTS

	2020 (Unaudited) RMB million	2019 (Unaudited) RMB million
For the six months ended 30 June		
Turnover	17,408	18,825
Profit attributable to shareholders of the Company ¹	2,079	1,871
Basic earnings per share	RMB0.64	RMB 0.58
Interim dividend per share	RMB0.128	RMB 0.12
	As at 30 June 2020 (Unaudited) RMB million	As at 31 December 2019 (Audited) RMB million
Equity attributable to shareholders of the Company	21,612	19,670
Non-controlling interests	61	57
Total equity	21,673	19,727
Consolidated net cash ²	8,663	1,897
Gearing ratio ³	Net cash	Net cash
Current ratio	0.70	0.49
Net assets per share - book value ⁴	RMB6.66	RMB 6.06

Notes:

1. Included staff compensation and settlement expenses related to capacity optimization and organization restructuring of RMB26 million (2019: RMB348 million) and impairment loss on fixed assets of RMB263 million (2019: RMB88 million).
2. Consolidated net cash/(borrowings) represents consolidated total of cash and cash equivalents and pledged bank deposits minus consolidated total loans.
3. Gearing ratio represents the ratio of consolidated net borrowings to total equity.
4. Net assets per share - book value is calculated by dividing equity attributable to shareholders of the Company by the number of issued shares at the end of the year.

ANALYSIS OF TURNOVER AND EARNINGS BEFORE INTEREST AND TAXATION

	Turnover		Earnings before interest and taxation	
	For the six months ended 30 June		For the six months ended 30 June	
	2020 (Unaudited) RMB million	2019 (Unaudited) RMB million	2020 (Unaudited) RMB million	2019 (Unaudited) RMB million
Eastern region	8,980	9,732	1,149	1,377
Central region	4,679	5,020	810	751
Southern region	4,435	4,552	894	572
	18,094	19,304	2,853	2,700
Elimination of inter-segment transactions	(686)	(479)	-	-
Net corporate expenses	-	-	(63)	(68)
Total	17,408	18,825	2,790	2,632

2020 INTERIM RESULTS

The Directors of China Resources Beer (Holdings) Company Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June			
		2020	2019
		(Unaudited)	(Unaudited)
	Notes	RMB million	RMB million
Turnover		17,408	18,825
Cost of sales		(10,378)	(11,700)
Gross profit		7,030	7,125
Other income	7	554	396
Selling and distribution expenses		(2,927)	(2,906)
Administrative and other expenses		(1,823)	(1,944)
Finance costs	8	(3)	(22)
Profit before taxation		2,831	2,649
Taxation	9	(747)	(777)
Profit for the period	10	2,084	1,872
Attributable to:			
Shareholders of the Company		2,079	1,871
Non-controlling interests		5	1
		2,084	1,872
Earnings per share	12		
Basic		RMB0.64	RMB0.58

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>RMB million</i>	<i>RMB million</i>
Profit for the period	2,084	1,872
Other comprehensive income/(expenses):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	9	-
Fair value adjustment on financial assets at fair value through other comprehensive income	(1)	-
Other comprehensive income for the period, net of tax	8	-
Total comprehensive income for the period	2,092	1,872
Attributable to:		
Shareholders of the Company	2,088	1,871
Non-controlling interests	4	1
	2,092	1,872

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2020 (Unaudited) RMB million	As at 31 December 2019 (Restated) RMB million
	Notes		
Non-current assets			
Fixed assets		15,076	15,818
Right-of-use assets		3,533	3,595
Goodwill		9,454	9,422
Other intangible assets		353	384
Financial assets at fair value through other comprehensive income		8	9
Prepayments		151	113
Deferred taxation assets		2,794	2,532
		31,369	31,873
Current assets			
Stocks		5,927	6,018
Trade and other receivables	13	926	943
Taxation recoverable		125	349
Pledged bank deposits		66	68
Cash and cash equivalents		8,597	2,340
		15,641	9,718
Current liabilities			
Trade and other payables	14	(22,005)	(19,061)
Short term loans		-	(511)
Lease liabilities		(84)	(90)
Taxation payable		(392)	(194)
		(22,481)	(19,856)
Net current liabilities		(6,840)	(10,138)
Total assets less current liabilities		24,529	21,735
Non-current liabilities			
Lease liabilities		(140)	(124)
Deferred taxation liabilities		(786)	(678)
Other non-current liabilities		(1,930)	(1,206)
		(2,856)	(2,008)
		21,673	19,727
Capital and reserves			
Share capital		14,090	14,090
Reserves		7,522	5,580
Equity attributable to shareholders of the Company		21,612	19,670
Non-controlling interests		61	57
Total equity		21,673	19,727

Notes:

1. Independent review

The interim results for the six months ended 30 June 2020 are unaudited and have been reviewed by the Company's Audit Committee.

2. Basis of preparation

The interim results announcement has been presented in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

A full set of unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 ("interim financial information") which has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" will be published as soon as practicable.

The financial information relating to the year ended 31 December 2019 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2020 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622 of the laws of Hong Kong) ("Companies Ordinance") is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Taking into account the gearing ratio, historical and expected future cash flows from operations and unutilised available banking facilities of the Group, management expected the Group has adequate resources to meet its liabilities and commitment as and when they fall due and to continue in operational existence for the foreseeable future.

3. Principal accounting policies

The accounting policies applied in the preparation of the interim financial information are consistent with those applied in the annual financial statements for the year ended 31 December 2019, except for the adoption of the Amendments to References to the Conceptual Framework in Hong Kong Financial Reporting Standards ("HKFRS") and the amendments issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2020.

The adoption of these new amendments to HKFRSs and the Amendments to References the Conceptual Framework has had no material effect on the results or financial positions of the Group for the current and prior accounting periods. Accordingly, no prior period adjustments are required.

The Group has not early applied the new standard and amendments that have been issued by the HKICPA but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised standards and amendments but is not yet in a position to determine whether these new and revised standards and amendments would have a material impact on its results of operations and financial position.

4. Significant event

Since the outbreak of COVID-19 in early 2020 in Mainland China, local governments implemented lockdown policies in various cities and a number of emergency prevention and control measures to reduce the risk of the pandemic spreading in the country. The beer market was severely affected during the pandemic. Since the end of March, the pandemic situation in most areas in Mainland China started to ease, and the emergency level was gradually reduced. The recurrence of COVID-19 in areas such as Northeast China and Beijing was controlled quickly and effectively, and the beer market has gradually recovered to a normal level. Affected by the pandemic, the beer market size has shrunk considerably compared to the same period of last year.

During the outbreak of COVID-19, the Group overcame the difficulties in preventing and controlling the pandemic by enforcing remote office arrangement and, after obtaining approvals from local governments and ensuring staff safety, facilitate the resumption of production. Despite the pandemic, the Group has been looking for development and has launched a number of sales programs to enhance the competitiveness, paving the way for rapid growth once the market recovers from the pandemic. The overall beer sales volume of the Group recovered in the second quarter and recorded a better growth compared to the same period of last year.

5. Adjustment for goodwill arising from acquisition of Heineken China

On 29 April 2019, the Group acquired from Heineken N.V. (“Heineken Group”) the entire equity interest of Heineken China (“Heineken (China) Management Services Co., Ltd., Heineken Trading (Shanghai) Co., Ltd., Heineken (Shanghai) Co., Ltd., Heineken Brewery (Guangzhou) Co., Ltd., Heineken Brewery (Zhejiang) Co., Ltd., Heineken Brewery (Hainan) Co., Ltd., and Heineken Hong Kong Limited”), while the price adjustment items and final consideration had not been agreed as at 31 December 2019, the provisional consideration of RMB2,333 million was applied for the calculation of provisional goodwill as at 31 December 2019.

During the six months ended 30 June 2020, the Group and Heineken Group reached a consensus on the consideration. The final consideration is determined to be RMB2,390 million and the goodwill was adjusted to RMB997 million.

The adjustments on the consolidated balance sheet as at 31 December 2019 are summarised below:

	31 December 2019 As originally presented and audited RMB million	Adjustments RMB million	31 December 2019 Restated RMB million
Consolidated balance sheet (extract)			
Non-current assets			
Goodwill	9,365	57	9,422
Current assets			
Trade and other receivable	1,000	(57)	943

6. Segment information

	Eastern Region (Unaudited) RMB million	Central Region (Unaudited) RMB million	Southern Region (Unaudited) RMB million	Corporate / Elimination (Unaudited) RMB million	Total (Unaudited) RMB million
For the six months ended					
30 June 2020					
Turnover¹					
External sales	8,621	4,453	4,334	-	17,408
Inter-segment sales	359	226	101	(686)	-
Total	8,980	4,679	4,435	(686)	17,408
Segment result²	1,149	810	894		2,853
Unallocated corporate expenses					(63)
Interest income					44
Finance costs					(3)
Profit before taxation					2,831
Taxation					(747)
Profit for the period					2,084
Other information					
Additions to non-current assets ³	207	162	35	23	427
Depreciation and amortisation	476	220	197	4	897
Impairment loss recognised	164	213	67	-	444
For the six months ended					
30 June 2019					
Turnover¹					
External sales	9,575	4,836	4,414	-	18,825
Inter-segment sales	157	184	138	(479)	-
Total	9,732	5,020	4,552	(479)	18,825
Segment result²	1,377	751	572		2,700
Unallocated corporate expenses					(68)
Interest income					39
Finance costs					(22)
Profit before taxation					2,649
Taxation					(777)
Profit for the period					1,872
Other information					
Additions to non-current assets ³	3,292	210	134	-	3,636
Depreciation and amortisation	459	209	184	3	855
Impairment loss recognised	102	10	114	-	226

Notes:

1. Turnover represents sales of beer products net of sales rebates was recognised at a point of time.
2. Segment result represents earnings before interest and taxation.
3. Additions to non-current assets included fixed assets, goodwill, other intangible assets and right-of-use assets.

7. Other income

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB million	RMB million
Other income includes:		
Interest income	<u>44</u>	<u>39</u>

8. Finance costs

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB million	RMB million
Interest on bank loans and other loans	12	12
Interest on lease liabilities	4	6
Financing charges	3	4
Net exchange gain	(16)	-
	<u>3</u>	<u>22</u>

9. Taxation

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB million	RMB million
Chinese Mainland income tax		
Current taxation	908	651
Deferred taxation	(161)	126
	<u>747</u>	<u>777</u>

Hong Kong Profit Tax is calculated at 16.5% (2019: 16.5%) on the estimated assessable profits for the period.

Chinese Mainland income tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the subsidiaries in the Chinese Mainland. The applicable principal income tax rate for the six months ended 30 June 2020 is 25% (2019: 25%).

Under the Law of People's Republic of China ("PRC"), withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for undistributed profits to the extent that declarations of dividends are anticipated in the foreseeable future.

10. Profit for the period

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB million	RMB million
Profit for the period has been arrived at after charging/(crediting):		
Staff cost (including directors' emoluments)	2,514	2,861
Depreciation		
- Owned fixed assets	736	818
- Right-of-use assets	129	18
Amortisation of other intangible assets	32	19
Impairment loss recognised on		
- Owned fixed assets	263	88
- Stocks	181	138
Cost of goods sold	10,378	11,700
Gain on disposal of fixed assets	(57)	(71)

11. Dividends

At the board meeting held on 20 March 2020, the directors proposed a final dividend of RMB0.045 per share for the year ended 31 December 2019. Such proposal was subsequently approved by shareholders on 22 May 2020. The dividend was translated to and paid in Hong Kong dollars (“HK\$”) at HK\$0.049 per share. The 2019 final dividend paid was approximately RMB146 million (2019: RMB97 million was paid for 2018).

At the board meeting held on 19 August 2020, the Board has declared an interim dividend of RMB0.128 (2019: RMB0.12) per share. Based on the latest number of shares in issue at the date of this announcement, the aggregate amount of the dividend is estimated to be RMB415 million (2019: RMB389 million).

12. Earnings per share

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB million	RMB million
The calculation of the basic earnings per share is based on the following data:		
Earnings		
Profit attributable to shareholders of the Company for the purposes of calculating basic earnings per share	2,079	1,871
	2020	2019
	(Unaudited)	(Unaudited)
Number of shares		
Number of ordinary shares for the purpose of calculating basic earnings per share	3,244,176,905	3,244,176,905
	2020	2019
	(Unaudited)	(Unaudited)
	RMB	RMB
Basic earnings per share	0.64	0.58

No separate diluted earnings per share information has been presented as there were no potential ordinary shares outstanding issue for both years.

13. Trade and other receivables

Included in trade and other receivables are trade receivables and their aging analysis is as follows:

	As at 30 June	As at 31 December
	2020	2019
	(Unaudited)	(Audited)
	RMB million	RMB million
0 – 30 days	171	34
31 – 60 days	42	40
61 – 90 days	48	25
> 90 days	155	230
	416	329

The Group normally trades with its customers under the following credit terms:

- (a) cash upon delivery; or
- (b) open credit from 30 to 90 days

14. Trade and other payables

Included in trade and other payables are trade payables and their aging analysis is as follows:

	As at 30 June 2020 (Unaudited) RMB million	As at 31 December 2019 (Audited) RMB million
0 – 30 days	4,541	2,452
31 – 60 days	1	110
61 – 90 days	1	13
> 90 days	33	138
	<u>4,576</u>	<u>2,713</u>

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The unaudited consolidated turnover of the Group for the first half of 2020 was RMB17,408,000,000, representing a decrease of 7.5% compared with the same period of last year. The Group's earnings before interest and taxation and profit attributable to shareholders in the first half of 2020 increased by 6.0% and 11.1% to RMB2,790,000,000 and RMB2,079,000,000 respectively over the same period of last year.

Since the outbreak of COVID-19 in early 2020 in Mainland China, local governments implemented lockdown policies in various cities and a number of emergency prevention and control measures to reduce the risk of the pandemic spreading in the country. The beer market was severely affected during the pandemic. Since the end of March, the pandemic situation in most areas in Mainland China started to ease, and the emergency level was gradually reduced. The recurrence of COVID-19 in areas such as Northeast China and Beijing was controlled quickly and effectively, and the beer market has gradually recovered to a normal level. Affected by the pandemic, the overall beer market size dropped significantly compared with the same period of last year.

During the outbreak of COVID-19, the Group overcame the difficulties in preventing and controlling the pandemic by enforcing remote office arrangement and, after obtaining approvals from local governments and ensuring staff safety, facilitated the resumption of production. Despite the pandemic, the Group has been looking for development and has launched a number of sales programs to enhance the competitiveness, paving the way for rapid growth once the market recovers from the pandemic. The overall beer sales volume of the Group recovered in the second quarter and recorded a better growth compared with the same period of last year. In the first half of 2020, the overall beer sales volume of the Group decreased by 5.3% year-on-year to approximately 6,039,000 kiloliters, outperforming the industry.

During the period under review, the sales volume of the mid- to high-end beer decreased by 6.2% year-on-year. However, benefitting from the introduction of the Heineken's international brands last year, together with the resumption of growth in beer sales volume in various segments in the second quarter, sales volume of the sub-high-end beer segment and above for the first half of 2020 increased by 2.9% year-on-year, while the product mix has further improved. In addition, more regions of the Group implemented the sales with returnable bottles during the period under review. In light of the above factors, the overall average selling price decreased by 2.4% compared with the same period of last year. Meanwhile, the promotion of the sales with returnable bottles and the decline in sales volume offset the rising cost of sales driven by further upgrade of product mix, resulting in the overall cost of sales declining by 11.3% compared with the same period of last year. Based on the above mentioned reasons, the gross profit in the first half of 2020 recorded a decrease of 1.3% year-on-year to RMB7,030,000,000.

Administrative and other expenses in the first half of 2020 decreased by 6.2% compared with the same period of last year. During the period under review, the Group continued to implement capacity optimization, resulting in larger amount of asset impairment in the first half of 2020. On the other hand, the compensation and settlement expenses related to capacity optimization and organizational restructuring decreased by RMB322,000,000 year-on-year.

The Group continued to expand its product portfolio and launched the high-end beer product "Heineken[®] Silver" beer in the second quarter of 2020. The launch, together with our high-end beer products, "SNOW MARRSGREEN BEER" and "Löwen White Beer" launched last year, further supported our premiumization strategy and enhanced our brand image.

The Group recognized impairment loss on fixed assets of RMB263,000,000 in the first half of 2020. The Group continued with its deployment of production capacity optimization. 2 breweries ceased operation during the period under review. As at the end of June 2020, the Group operated 72 breweries across 25 provinces, municipalities and autonomous regions in Mainland China, with an aggregate annual production capacity of approximately 19,600,000 kiloliters.

Looking ahead, facing the prevention and control of the pandemic overseas and the risk of the pandemic recurring in the domestic market, the Group is well prepared for the challenges that may emerge. Nonetheless, the Group will continue to uphold its strategic management philosophy of “Quality Development for Success in High-end Segment”, and will carry out various high-quality growth measures, whilst actively implementing measures for developing high-end segment. With the long-term strategic co-operation with the Heineken Group, the Group will enhance the launch of international brands, strengthen the competitiveness of its brand in high-end segment, and continue to explore new sales channel for its high-end products. At the same time, the Group will enhance its competitiveness in first tier cities through measures such as building professional teams specialized in the high-end segment, building brand portfolio with Chinese brands and international brands, expanding leading edge for its business and sales channels, and implementing operation mechanisms for key customers.

FINANCIAL REVIEW

Capital and Funding

As at 30 June 2020, the Group’s consolidated cash and bank deposits amounted to RMB8,663,000,000.

The Group was at a net cash position as at 30 June 2020 and 31 December 2019.

The Group’s principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars, Renminbi and US dollars. As at 30 June 2020, 0.3% of the Group’s cash and bank deposits balances were held in Hong Kong dollars, 97.0% in Renminbi and 2.7% in US dollars.

As at 30 June 2020, the Group’s current liabilities and current ratio were RMB22,481,000,000 and 0.70, respectively. The current liabilities included receipts in advance on sales and accruals on promotion and marketing expenses, majority of these amounts would be offset by trade receivables or be realised through sale discounts in the future, and thus no significant net cash outflow was anticipated. Taking into account the gearing ratio, historical and expected future cash flows from operations and unutilised available banking facilities of the Group, management expected the Group has adequate resources to meet its liabilities and commitment as and when they fall due and to continue in operational existence for the foreseeable future.

Pledge of Assets

As at 30 June 2020, bank deposits with a carrying value of RMB66,000,000 (31 December 2019: RMB68,000,000) were pledged for notes payable.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 June 2020.

Employees

As at 30 June 2020, the Group had a staff size of around 28,000, amongst which more than 99% were employed in the Chinese Mainland, whilst the rest were mainly in Hong Kong. Remuneration packages are assessed in accordance with the nature of job duties, individual performance and market trends with built-in merit components, paid in the form of cash bonuses.

INTERIM DIVIDEND

The Board has declared an interim dividend of RMB0.128 per share (equivalent to HK\$0.143 per share at the exchange rate of RMB1:HK\$1.1178, being the average CNY Central Parity Rate announced by the People's Bank of China for the five business days prior to and including the date of this announcement) for the six months ended 30 June 2020 (2019: interim dividend RMB0.12 per share, equivalent to HK\$0.134 per share) payable on Monday, 12 October 2020 to the shareholders of the Company whose names appear on the register of members of the Company on Friday, 25 September 2020. The interim dividend will be payable in cash in Hong Kong dollars.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Friday, 25 September 2020. In order to be eligible for the interim dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 24 September 2020 for registration.

CORPORATE GOVERNANCE

The Company recognises that the development and maintenance of a good and solid framework of corporate governance suitable to the needs of the Group requires commitment and continuous vigilance. The directors of the Company (the "Directors") firmly believe that sensible corporate governance practice is essential to vigorous but steady growth of the Group.

The Company has implemented its own corporate governance standards and objectives since November 2003. On 8 April 2005, the Board approved the Company's Corporate Governance Practice Manual ("Corporate Governance Manual"). The Corporate Governance Manual, which was revised on 31 March 2009, 18 November 2010, 21 March 2012, 7 December 2015, 18 March 2016 and 21 November 2018, incorporates almost all of the Code Provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and includes the implementation details for the Code Provisions and, where appropriate, the Recommended Best Practices. The Corporate Governance Manual can be downloaded from our website and copies are available on request to the Company Secretary.

The Company has complied with the Code Provisions set out in the CG Code during the period, save and except the following:

In respect of Code Provisions A.2.1 to A.2.6 and A.2.8 to A.2.9 and E.1.2 of the CG Code, since the resignation of Mr. Chen Lang as the Chairman with effect from 11 July 2019, the position of the Chairman has been vacant and has not been filled up as at the date of this announcement. The

Board of the Company as a whole and its members have discharged the duties under the aforementioned Code Provisions of the CG code as appropriate. The Board and the Nomination Committee of the Company will continuously review and discuss the adjustment to the composition of the Board.

In respect of Code Provision A.4.1 of the CG Code, all the non-executive Directors are not appointed for a fixed term. The Board does not believe in any arbitrary term of office. The current arrangement will give the Company sufficient flexibility to organize the composition of the Board to serve the needs of the Group. Further, the Articles of Association of the Company requires that one-third of the Directors (including executive and non-executive Directors) shall retire each year and every director shall be subject to retirement by rotation at least once every three years. The Directors to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.

In respect of Code Provision C.1.2 of the CG Code, the Company has not provided all members of the Board with monthly updates to enable the Board as a whole and each Director to discharge their duties. However, the Company has based on business situation, provided to the Board from time to time, updated business information to enable the Board as a whole and each Director to discharge their duties.

In respect of Code Provision D.1.4 of the CG Code, the Company did not have formal letters of appointment for Directors. However, the Directors are subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company. In addition, the Directors are required to refer to the guidelines set out in “A Guide on Directors’ Duties” issued by the Companies Registry and “Guidelines for Directors”, and, if applicable, “Guide for Independent Non-Executive Directors” published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors of the Company. Besides, the Directors are required to comply with the requirements under the Listing Rules, legal and other regulatory requirements.

On 8 April 2005, the Company has adopted a Code of Ethics and Securities Transactions (“Code of Ethics”) which incorporates the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Listing Rules. The Code of Ethics has been amended, approved and reconfirmed by the Board of Directors of the Company on 6 April 2006, 4 April 2007, 31 March 2008 and further revised on 31 March 2009, 18 November 2010, and 7 December 2015 respectively. The prohibitions on securities dealing and disclosure requirements in the Code of Ethics also apply to specified individuals who include the Group’s senior management and persons who are privy to inside information of the Group. The Code of Ethics is on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry with the all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2020.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

By order of the Board

JIAN YI

Executive Director

Hong Kong, 19 August 2020

As at the date of this announcement, the Executive Directors of the Company are Mr. Jian Yi, Mr. Hou Xiaohai (Chief Executive Officer) and Mr. Lai Po Sing, Tomakin (Chief Financial Officer). The Non-executive Directors of the Company are Mr. Lai Ni Hium, Frank, Mr. Tuen Muk Lai Shu and Mr. Richard Raymond Weissend. The Independent Non-executive Directors of the Company are Mr. Houang Tai Ninh, Dr. Li Ka Cheung, Eric, Dr. Cheng Mo Chi, Moses, Mr. Bernard Charnwut Chan and Mr. Siu Kwing Chue, Gordon.