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 2015

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2015 amounted to approximately RMB798.9 million, representing an increase of 19.5% from approximately RMB668.4 million recorded in 2014.
- Gross profit for the year ended 31 December 2015 amounted to approximately RMB450.9 million, representing an increase of 16.7% from approximately RMB386.5 million recorded in 2014.
- Profit attributable to ordinary equity holders of the parent for the year ended 31 December 2015 amounted to approximately RMB228.5 million, representing an increase of 8.0% from approximately RMB211.6 million recorded in 2014.
- The Board has recommended the payment of a final dividend of RMB8.8 cents per ordinary share for 2015.

* *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 2015, together with the comparative figures for the year ended 31 December 2014, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2015

	Notes	**2015** **RMB'000**	2014 RMB'000
REVENUE	4	**798,861**	668,426
Cost of sales		**(347,989)**	(281,928)
Gross profit		**450,872**	386,498
Other income and gains	4	**11,875**	5,877
Selling and distribution expenses		**(75,073)**	(40,338)
Administrative expenses		**(80,265)**	(81,444)
Other expenses		**(105)**	(1,512)
Finance costs	6	**(32,609)**	(22,858)
PROFIT BEFORE TAX	5	**274,695**	246,223
Income tax expense	7	**(46,167)**	(34,620)
PROFIT FOR THE YEAR		**228,528**	211,603
Attributable to:			
Owners of the parent		**228,528**	211,603
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted		**RMB44.1 cents**	RMB41.8 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	2015	2014
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**228,528**	211,603
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**233**	10,530
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**233**	10,530
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**228,761**	222,133

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**629,556**	501,493
Prepaid land lease payments		**26,683**	27,196
Other intangible assets		**414**	414
Prepayments for non-current assets		**113,493**	1,207
Time deposits		**—**	1,820
Deferred tax assets		**2,891**	327
Total non-current assets		**773,037**	532,457
CURRENT ASSETS			
Inventories	*10*	**945,469**	830,488
Trade receivables	*11*	**141,959**	187,900
Prepayments, deposits and other receivables		**249,279**	167,155
Time deposits		**2,874**	—
Cash and cash equivalents		**186,048**	218,466
Total current assets		**1,525,629**	1,404,009
CURRENT LIABILITIES			
Trade payables	*12*	**118,459**	175,608
Other payables and accruals		**55,847**	58,344
Interest-bearing bank and other borrowings		**570,345**	308,760
Tax payable		**37,003**	16,915
Total current liabilities		**781,654**	559,627
NET CURRENT ASSETS		**743,975**	844,382
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,517,012**	1,376,839

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2015

	2015	2014
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**74,415**	109,000
Other long term liabilities	**4,505**	4,684
Deferred tax liabilities	**14,761**	8,751
Total non-current liabilities	**93,681**	122,435
Net assets	**1,423,331**	1,254,404
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1,584**	1,584
Reserves	**1,421,747**	1,252,820
Total equity	**1,423,331**	1,254,404

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 4 December 2012 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Key Shine Global Holdings Limited, which was incorporated in the British Virgin Islands ("**BVI**").

On 16 January 2014, the Company issued the prospectus and launched a public offering of 125,000,000 shares at an offer price of HK$7.15 per share and the capitalisation of 365,000,000 shares (the "**Capitalisation Issue**"). The Company's shares were listed on the Stock Exchange of Hong Kong Limited (the "**SEHK**") on 28 January 2014 (the "**Listing**").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.1 BASIS OF PREPARATION (CONTINUED)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Annual Improvements 2010–2012 Cycle	Amendments to a number of IFRSs
Annual Improvements 2011–2013 Cycle	Amendments to a number of IFRSs

The adoption of the above revised standards has had no significant financial effect on these financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[3]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012–2014 Cycle	*Amendments to a number of IFRSs*[1]

1 Effective for annual periods beginning on or after 1 January 2016

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

4 No mandatory effective date yet determined but is available for adoption.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

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

- The food segment manufactures and sells condiment products.

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

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

	2015	2014
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**798,861**	668,426
Other income and gains		
Gain upon expiry of warrants	**7,959**	—
Subsidy received	**2,161**	2,906
Gain from sale of materials	**1,094**	1,575
Interest income	**223**	1,310
Rental income	**438**	36
Others	**—**	50
	11,875	5,877

5. PROFIT BEFORE TAX

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

	2015	2014
	RMB'000	*RMB'000*
Costs of inventories sold	**347,989**	281,928
Depreciation	**27,354**	12,707
Auditors' remuneration	**1,770**	1,564
Amortisation of prepaid land lease payments	**510**	597
Minimum lease payments under operating leases regarding plant and machinery	**2,242**	546
Employee benefit expense (excluding directors' remuneration):		
— Wages and salaries	**18,681**	14,027
— Pension scheme contributions	**2,729**	1,681
	21,410	15,708
Research and development costs	**46,773**	48,639
Donations	**100**	1,510

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2015	2014
	RMB'000	*RMB'000*
Interest on bank and other borrowings wholly repayable within five years	**32,609**	22,858

7. INCOME TAX

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% (2014: 25%) on the taxable profits, based on the existing legislation, interpretations and practices in respect thereof.

7. INCOME TAX (CONTINUED)

Pursuant to the approval from the National Office of Leading Group for Administration of Hi-tech Enterprise Recognition, Huzhou Laohenghe Brewery Co., Limited and Huzhou Laohenghe Wine Co., Limited were granted the "New and Advanced Technology Enterprise" status and were entitled to the preferential tax rate of 15% for the three years ended 31 December 2015.

	2015	2014
	RMB'000	*RMB'000*
Current — PRC		
Charge for the year	**42,721**	34,947
Deferred	**3,446**	(327)
Total tax charge for the year	**46,167**	34,620

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

	2015		2014	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**274,695**		246,223	
Tax at the statutory tax rate	**68,674**	**25.0**	61,556	25.0
Lower tax rate enacted by the local authority	**(25,787)**	**(9.4)**	(26,544)	(10.8)
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	**6,010**	**2.2**	—	—
Income not subject to tax	**—**	**—**	(200)	(0.1)
Tax incentive on eligible expenditures	**(2,765)**	**(1.0)**	(3,044)	(1.2)
Expenses not deductible for tax	**35**	**—**	2,852	1.2
Tax charge at the Group's effective rate	**46,167**	**16.8**	34,620	14.1

8. DIVIDENDS

	2015	2014
	RMB'000	*RMB'000*
Proposed final — RMB8.8 cents (2014: RMB10.0 cents) per ordinary share	**45,650**	51,875

The proposed final dividend for the year ended 31 December 2015 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amounts is based on the profit for the year ended 31 December 2015 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 518,750,000 (2014: 506,644,000) in issue during the year.

	2015	2014
Profit attributable to ordinary equity holders of the parent (RMB'000)	**228,528**	211,603
Weighted average number of ordinary shares in issue (in thousands)	**518,750**	506,644
Earnings per share attributable to ordinary equity holders of the parent — Basic and diluted (RMB)	**44.1 cents**	41.8 cents

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2015 and 2014 in respect of a dilution as the impact of the warrants outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

10. INVENTORIES

	2015	2014
	RMB'000	*RMB'000*
Raw materials	**8,069**	13,908
Work in progress	**921,174**	782,719
Finished goods	**16,226**	33,861
	945,469	830,488

As at 31 December 2015, the Group's inventories with a carrying amount of RMB366,103,000 (2014: RMB117,530,000) were pledged to secure bank loans granted to the Group.

11. TRADE RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Trade receivables	**141,959**	187,900

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

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

11. TRADE RECEIVABLES (CONTINUED)

An aged analysis of the trade receivables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	2015	2014
	RMB'000	*RMB'000*
Within 1 month	**82,014**	86,375
1 to 3 months	**57,482**	81,517
3 to 6 months	**1,087**	16,382
6 months to 1 year	**1,007**	3,380
Over 1 year	**369**	246
	141,959	187,900

An aged analysis of the trade receivables, based on the credit terms, that are neither individually nor collectively considered to be impaired, is as follows:

	2015	2014
	RMB'000	*RMB'000*
Neither past due nor impaired	**139,496**	167,891
Less than 3 months past due	**1,087**	16,382
3 to 6 months	**728**	3,164
6 months to 1 year	**298**	229
Over 1 year	**350**	234
	141,959	187,900

The trade receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

12. TRADE PAYABLES

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

	2015	2014
	RMB'000	*RMB'000*
Within 3 months	**50,338**	102,149
3 to 6 months	**17,704**	31,924
Over 6 months	**50,417**	41,535
	118,459	175,608

Trade payables of the Group are non-interest-bearing and are normally settled on terms of one to six months. The carrying amounts of the trade payables approximate to their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

We are one of the leading manufacturers of cooking wine in the People's Republic of China (the "**PRC**" or "**China**"). We offer high quality and healthy cooking wine as well as other condiments, including soy sauce, vinegar and soybean sauce products.

According to fmcgchina.com (快消品年度指南) issued in January 2016, Lao Heng He's soy sauce is awarded the "most popular products" (暢銷金品) in the soy sauce sales in Shanghai market in 2015 by sales value and Lao Heng He's cooking wine is awarded the "2015 popular product" (2015經典金品) in China in 2015 by sales value.

In 2015, we recorded strong growth in various grades of cooking wine and vinegar as compared to the previous year. The strong growth is a good testimony to the effective distribution and pricing strategies implemented by the Group in 2015.

For the year ended 31 December 2015, the Group's revenue reached approximately RMB798.9 million (2014: RMB668.4 million), representing an increase of approximately 19.5% over the previous year. Profit before tax was approximately RMB274.7 million for the year ended 31 December 2015 (2014: RMB246.2 million), representing an increase of approximately 11.6% over 2014. Profit attributable to the ordinary equity holders of the parent was approximately RMB228.5 million for the year ended 31 December 2015 (2014: RMB211.6 million), representing an increase of approximately 8.0% over 2014.

Our key product, cooking wine, continued to be our major source of revenue, representing 72.9% of the total revenue. In 2015, we continued to focus our sales and marketing resources on enhancing sales of our cooking wine, to re-enforce our marker leader position, as well as introduce key premium products in other categories to differentiate ourselves.

Over the years we have continuously added to our stock value of base wine, to prepare ourselves for future growth as well as guard against the increase of raw material price. We are approaching our desired level of stock for our base wine. We will also continue to improve our research and development capabilities to focus on standardization of production process, new product development and product improvement.

We improved our production facility at our plants in Huzhou City, Zhejiang Province in 2015, purchased new production equipments, and implemented various technical improvements to the production lines. This will allow us to prepare and leverage the increasing demand for healthy and quality condiment products, such as our zero additive cooking wine and no caramel colour additive Stewed Mushroom Dark Soy Sauce (草菇老抽) and Premium Flavored Soy Sauce (鮮上鮮特級醬油).

Our profitability is mainly affected by the product price and our cost of sales, the product structure and mix, and the relevant domestic policies. We are actively monitoring any potential risk factors that may impact on our financial results, and trying to mitigate any increasing costs with more efficient operation and better product mix with higher profit margins. However, the Group does face certain risks in its production and business development, which include: 1) risk of significant increase in the cost of production, such as increase in the prices of agricultural sideline products, packaging cost or labour cost; 2) negative impact on our sales due to the changing consumer habits for condiment products; 3) the greater-than-expected cost pressure from market expansion; 4) Category A and B distributors' (as defined in the prospectus issued by the Company on 16 January 2014 ("**Prospectus**")) operational risks may negatively impact on our sales channels, due to our increasing sales to Category A and B distributors; 5) the possibility of failure of our new products to obtain market recognition; and 6) increasing complexity of managing sales policies and credit terms due to rapid expansion of our distributors.

The Chinese consumers are increasingly choosing quality products with greater brand recognition, and attaching a greater importance to food quality and food safety, and are more willing to pay higher price for premium quality products.

From second half of 2015, our products are now widely distributed in various e-commerce platforms, such as Tmall, JD.COM, Yihaodian. We have also signed distribution and cooperation agreement with Mr. Shen Hongfei (沈宏非) ("**Mr. Shen**") and Mr. Cai Lan (蔡瀾) ("**Mr. Cai**") in 2015, who are the two master consultants to a very popular TV series called "A Bite of China" (舌尖上的中國). This is a strong vote of confidence for our products to have Mr Shen and Mr. Cai's endorsement, as they are famous food critics in the PRC and Hong Kong.

Financial Review

Overview

The key financial indicators of the Group are as follows:

	Year ended 31 December		
	2015	2014	Year-on-year Change
	RMB'000	*RMB'000*	%
Income statement items			
Sales	**798,861**	668,426	19.5%
Gross profit	**450,872**	386,498	16.7%
Profit attributable to owners of the parent	**228,528**	211,603	8.0%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	**335,168**	282,385	18.7%
Earning per share (RMB cents) *(Note (a))*	**44.1**	41.8	5.5%
Selected financial ratios			
Gross profit margin (%)	**56.4%**	57.8%	(2.4%)
Net profit margin attributable to ordinary equity holders of the parent (%)	**28.6%**	31.7%	(9.8%)
EBITDA margin (%)	**42.0%**	42.2%	(0.5%)
Return on equity holders' equity (%)	**16.1%**	17.7%	(9.0%)
Gearing ratio *(Note (b))*	**30.9%**	25.9%	19.3%

Notes:

(a) Please refer to Note 9 to the financial statements of this announcement for the calculation of earnings per share.

(b) The gearing ratio is based on net debt divided by total equity and net debt as at 31 December 2015. Net debt includes total debt net of cash and cash equivalents.

Revenue

The revenue of the Group, increased by 19.5% from RMB668.4 million in 2014 to RMB798.9 million in 2015, primarily reflecting an increase in the sales of our cooking wine products, soy sauce products and vinegar products.

Revenue from cooking wine products increased by 22.9 % from RMB472.9 million for the year of 2014 to RMB581.3 million for the year of 2015, mainly due to the increase in sales in our premium and medium-range cooking wines. With our effort on enhancing the "Lao Heng He" ("老恒和") cooking wine brand with "naturally-brewed" concept, vertical penetration of the Group's distribution network to third tier and fourth tier cities, the sales of our cooking wine products kept increasing in 2015, especially our signature products, such as Chef's Huadiao (厨用花雕), Scallion & Ginger Cooking Wine (葱薑料酒) and Lao Heng He Cooking Wine (老恒和料酒).

Revenue from the Group's soy sauce products increased slightly by 1.5% from RMB106.4 million for the year of 2014 to RMB108.0 million for the year of 2015. In 2015, the Group continually streamlined its soy sauce product offerings, with main focus on several premium products such as Premium Flavored Soy Sauce (鮮上鮮特級醬油) and no caramel colour additive Stewed Mushroom Dark Soy Sauce (草菇老抽).

Revenue from the Group's vinegar products increased by 26.8% from RMB68.6 million for the year of 2014 to RMB87.0 million for the year of 2015, which was mainly attributable to vertical penetration of the Group's distribution network to third tier and fourth tier cities and the growing market popularity for the naturally brewed vinegar such as Rose Rice Vinegar (玫瑰米醋), Crab Vinegar (蟹醋) and Premium Zhejiang Vinegar (上品浙醋).

Revenue from other products increase by 10.2% from RMB20.5 million for the year of 2014 to RMB22.6 million for the year of 2015, which was mainly due to the increase in sales of soybean sauce product.

We believe the outstanding performance of our sales are largely contributed to (i) increasing market recognition of the "Lao Heng He" ("老恒和") brand; (ii) consistent superior quality of the "Lao Heng He" ("老恒和") products; (iii) enhancing efforts on the Group's marketing and promotion activities; (iv) rising disposable income level of household in the PRC; (v) growing consumer consciousness of food safety and preference for naturally-brewed cooking wine products which we introduced to the market; and (vi) vertical penetration of our distribution network to third tier and fourth tier cities.

Cost of Sales

Our cost of sales increased by 23.4% from RMB281.9 million in 2014 to RMB348.0 million in 2015. The increase in cost of sales was largely in line with the increase in revenue.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 16.7% from RMB386.5 million in 2014 to RMB450.9 million in 2015. However, the gross profit margin decreased slightly from 57.8% in 2014 to 56.4% in 2015, primarily due to the application of new brewery method in premium soy sauce products in order to improve the quality and flavor.

Other Income and Gains

Other income and gains increased by 101.7% from RMB5.9 million in 2014 to RMB11.9 million in 2015. Other income and gains consists primarily of gain upon expiry of warrants, subsidy received, gains from sale of materials and interest income. The increase in other income and gains was primarily due to the gain upon expiry of warrants.

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 significantly increased from RMB40.3 million in 2014 to RMB75.1 million in 2015, and the distribution expenses as a percentage of the Group's revenue increased from 6.0% for 2014 to 9.4% for 2015, as the Group conducted more extensive marketing and promotional activities to vertically penetrate the Group's distribution network to third tier and fourth tier cities, restaurants and e-commerce platforms.

Administrative Expenses

The administrative expenses decreased by 1.4% from RMB81.4 million in 2014 to RMB80.3 million in 2015. This decrease mainly reflected a decrease in the office and travelling expenses due to the completion of the Listing.

Finance Cost

Finance cost increased by 42.4% from RMB22.9 million in 2014 to RMB32.6 million in 2015. The increase in finance cost primarily reflected an increase in interest on bank loans from RMB22.9 million for the year of 2014 to RMB32.6 million for the year of 2015 as a result of an increase in the average balance of our bank loans in 2015 to support the expansion of our business.

Profit before Tax

As a result of the foregoing, the profit before tax increased by 11.6% from RMB246.2 million in 2014 to RMB274.7 million in 2015.

Income Tax Expense

Income tax expense increased by 33.5% from RMB34.6 million in 2014 to RMB46.2 million in 2015, with the effective income tax rate increased from 14.1% in 2014 to 16.8% in 2015, mainly due to the increase in deferred tax liabilities recognized for withholding taxes. Subsidiaries of the Group in the PRC, including Huzhou Laohenghe Brewery Co., Limited and Huzhou Laohenghe Wine Co., Limited, have been granted the "Certificate of New and Advanced Technology Enterprise" and are entitled to the preferential tax rate of 15% for three years starting from 1 January 2013. As such, the corporate income tax of the Group for the year of 2015 in respect of its operations in the PRC has been provided at the rate of 15% (2014: 15%) on the taxable profit.

Profit Attributable to Ordinary Equity Holders of the Parent

For the foregoing reasons, profit attributable to ordinary equity holders of the parent increased from RMB211.6 million in 2014 to RMB228.5 million in 2015.

Earnings per Share Attributable to Ordinary Equity Holders of the Parent

Basic earnings per share increased from RMB41.8 cents for 2014 to RMB44.1 cents for 2015. Increase in earnings per share was attributable to the increment of profit attributable to ordinary equity holders of the parent.

Net Profit Margin

Net profit margin decreased 3.1 percentage points from 31.7% in 2014 to 28.6% in 2015. The decrease in net profit margin was mainly attributable to an increase in the cost of sales resulting in a decrease in gross profit margin and an increase in selling and distribution expenses.

FINANCIAL AND LIQUIDITY POSITION

Trade receivables

Trade receivables decreased from RMB187.9 million as at 31 December 2014 to RMB142.0 million as at 31 December 2015 and the turnover days of trade receivables decreased from 76 days in 2014 to 75 days in 2015, mainly reflecting an increase in the proportion of sales to category C and D distributors which has shorter credit period. Details of the ageing analysis of trade receivables are set out in Note 11 to the financial statements in this announcement.

We implemented a multi-category distributor system to manage distribution of its products since 2011. We classified its distributors into Categories A (the highest), B, C and D based on their distribution scale and capabilities.

Inventories

Inventories increased from RMB830.5 million as at 31 December 2014 to RMB945.5 million as at 31 December 2015, primarily due to an increase in work in progress. A substantial part of our inventories were contributed by work in progress, which mainly represented the base wine, base soy sauce and base vinegar in the brewing period. Due to the long production cycle and short sales cycle, we need to keep an abundant stock of well-aged base wine to cope with the rapid sales growth in the future. With leverage of the funding support from the banks, we expanded our production scale significantly, and the carrying amounts of base wine recorded a significant increase, to ensure we have sufficient work in progress stock not only for the short-term production, but also for the expansion in the coming years.

We monitor the level of inventory maintained by our distributors on a regular basis. Our sales representatives maintain frequent telephone or email communications with each of our Categories A, B, C and D distributors, review their monthly inventory reports and visit their warehouses on a regular basis. Our sales representatives visit our Category A and B distributors' warehouses at least on a monthly basis and those Category C and D distributors at least every three months to ensure that they keep optimal stock level and our products are sold to end customers within the shelf life. We generally expect our distributors to maintain sufficient stock for 5 to 20 days of supply. In the event a distributor maintains stocks of more than 20 days of supply, the relevant sales representatives will assist such distributor in marketing and promotional activities and suggest smaller-sized orders to be placed for the succeeding periods to minimize excess inventory.

As at 31 December 2015, our inventories with a carrying amount of RMB366.1 million (31 December 2014: RMB117.5 million) were pledged to secure general banking facilities granted to us.

Borrowings

As at 31 December 2015, our total borrowings amounted to RMB644.8 million (31 December 2014: RMB 417.8 million) including finance lease payables with a carrying amount of RMB55.0 million (31 December 2014: nil).

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

Liquidity and Financial Resources

As at 31 December 2015, we had cash and cash equivalents of RMB186.0 million (31 December 2014: RMB218.5 million). As at 31 December 2015, we had interest-bearing bank and other borrowings of an aggregate amount of RMB644.8 million (31 December 2014: RMB417.8 million), which were denominated in RMB with interest rates from 5.80% to 7.20% per annum.

Our principal sources of liquidity include cash generated from business operation, proceeds from bank and other borrowings. We use cash from such sources for working capital, production facility expansions, other capital expenditures and debt service requirements. 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 its 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 30.9% as at 31 December 2015, representing an increase of 5.0 percentage points.

The gearing ratio is based on net debt divided by total equity and net debt as at 31 December 2015. Net debt includes total debt net of cash and cash equivalents.

CAPITAL COMMITMENT

Capital commitment as at 31 December 2015 amounted to approximately RMB30.2 million (31 December 2014: RMB16.4 million), which was mainly related to construction in progress for expansion of plant and machinery.

CONTINGENT LIABILITIES

As at 31 December 2015, we did not have any material contingent liability.

PLEDGE OF ASSETS

As at 31 December 2015, our inventories with a carrying amount of RMB366.1 million, property, plant and equipment with a carrying amount of RMB74.6 million and leasehold land with a carrying amount of RMB11.2 million were pledged to secure general banking facilities granted to us.

Except as disclosed in this announcement, we have not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third party. It does not have any interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to it or engages in leasing or hedging or research and development or other service with it.

MATERIAL ACQUISITION AND DISPOSAL

The Company has no material acquisition and disposal as at 31 December 2015.

FUTURE PROSPECTS

In 2015, we saw the continuous slowdown of China's macroeconomic growth, with China's GDP growth at 6.9% in 2015, the slowest in 25 years. The Chinese economy entered a "New Normal" against the backdrop of global economic uncertainty. In the course of the New Normal, the Chinese central government advocates a more sustainable domestic consumption-led growth and quality improvement over quantitative growth by supporting the development of the internet as well as aiding the technology upgrade of traditional manufacturing. China's New Normal represents opportunities for the condiments industry: consumers are craving quality and healthy products, e-commerce is stimulating consumers' spending especially from young professionals, and urbanisation is boosting household disposable income, all of which will drive demand for quality condiments products.

We believe our products under the "Lao Heng He" brand will continue to achieve rapid growth in the PRC.

Our 2016 operational targets focus on: (i) maintaining customer satisfaction and market leader position in our product offerings; (ii) continuing to vertically grow our distributors in the third and fourth tier cities; and (iii) continuing to deliver high quality, safe and healthy condiments products. We have stringent control over the whole production and supply chain and will continue to apply both traditional and modern production methods to deliver high quality and safety products to our customers.

Furthermore, we will look for suitable merger and acquisition opportunities to enhance our production capacity and product portfolio, which will bring long term strategic and economic value to us.

GOALS AND STRATEGIES

In 2016, our business strategy will pursue the "FOCUS" ("聚焦") strategy, focusing our investment and resources on our core products range, core sales channels and core customers demographics. We focus on our sales strategy around our consumers, and endeavor to achieve high customer loyalty and stickiness. We focus on providing natural premium healthy condiments to our consumers.

We are determined to maintain and fortify our leadership position in the cooking wine industry, continue to expand the distribution network of the Group's cooking wine products in the national market (among key cities and consumers), increase our corporate sales and enlarge the market share in the naturally-brewed cooking wine industry. We are also determined to be one of the leading condiment producers in China.

We aim at introducing new condiment products through research and development and innovation of traditional production techniques and increasing the quality and profit margin of our condiment products.

We continue to enhance vertical penetration of our distribution network to third tier and fourth tier cities. As at 31 December 2015, we have over 400 distributors throughout China, and we intend to continue to expand our distribution capabilities nationally in 2016. We will carefully select our distributor partners, to ensure the healthy growth of our business.

At the same time, we are building two sales teams in 2016. The first sales team will focus on developing and servicing our distributors and monitoring market implementation of our sales policies, and the second sales team will focus on servicing our key supermarkets channels, monitoring the implementation of our marketing initiatives and directing consumers to our products.

In 2016, we plan to increase our marketing and advertising spending, to increase customer awareness of our products and focus on consumer education about the quality and healthiness of our product. Lao Heng He aims to become the top choice for consumers.

However, we face certain risks as a result of rapid growth. The fast expansion of our sales team increases management and administrative complexity, and the quality of the sales people may have negative impact on our product sales. The fast expansion of our distributors nationally, also increases the complexity of managing our sales policies and credit terms, the different pricing policies in different regions may lead to products been sold crossing their authorized distribution regions, and negatively impact on our product sales and the effective operation of our distributors for those specific regions. The increasing spending in advertising may not be successfully or effectively increasing our revenue.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Company or by the Group after 31 December 2015.

EMPLOYEES

As at 31 December 2015, we had approximately 303 full-time employees, as compared to 329 employees as at 31 December 2014. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination. Remuneration of the Group's employees includes basic salaries, allowances, bonus and other employee benefits and are determined with reference to their experiences, qualifications, competence and general market conditions.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Group as at 31 December 2015 (31 December 2014: nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year of 2015.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB8.8 cents per ordinary share for the year ended 31 December 2015 (the "**Proposed Final Dividend**"), subject to the approval of the Company's shareholders at the Company's forthcoming annual general meeting to be held on or before 30 June 2016 (the "**2016 AGM**").

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) (the "**Listing Rules**").

CORPORATE GOVERNANCE

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

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**Governance Code**") contained in Appendix 14 to the Listing Rules in 2015, except for the deviations summarized below.

Provision A.2.1 of the Code provides that the roles of the Chairman and the chief executive officer (the "**CEO**") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the CEO should be clearly established and set out in writing.

Mr. Chen Weizhong ("**Mr. Chen**") has continually served as both the Chairman and CEO of the Company since its incorporation. He is responsible for managing the Board and the business of the Group. Although this deviates from the practice in provision A.2.1 of the Code, Mr. Chen has considerable and extensive experience in the cooking wine industry and management in general. The Board believes that it is in the best interest of the Company to have an executive chairman offering strong and consistent leadership in the development and execution of the Group's business strategies and is beneficial to the Group. The Board can benefit from his knowledge of the business and his capability in leading the Board in discussing the strategy and long-term development of the Group.

From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the Chairman should not be able to monopolize the voting result. The Board considers that the balance of power between the Board and the senior management can still be maintained under the current structure and there is no imminent need to change the arrangement. The remuneration committee and nomination committee of the Board also regularly review the structure and composition of the Board and will make appropriate recommendations to the Board regarding any proposed changes.

Provision E.1.2 of the Code provides that the chairpersons of the audit, remuneration, nomination committees should be available to answer questions at the annual general meeting. Due to his other business commitments, Mr. Shen Zhenchang, the chairman of the remuneration committee was not present at the annual general meeting held on 29 May 2015.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuer" (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the directors of the Company and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Upon specific enquiry, all Directors of the Company confirmed that they have complied with the Model Code during the year ended 31 December 2015. 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 2015.

REVIEW OF ANNUAL RESULTS

Audit Committee

The audit committee of the Company (the "**Audit Committee**") (which comprises all independent non-executive directors, namely Mr. Ma Chaosong (Chairman), Mr. Lei Jiasu and Mr. Shen Zhenchang) has reviewed, the consolidated financial statement of the Group for the year ended 31 December 2015, including accounting principles and policies adopted by the Group, and discussed internal controls and financial reporting matters.

The Audit Committee has reviewed the remuneration and independence of the auditor of the Company, Ernst & Young, and recommended that the Board re-appoint Ernst & Young as the Company's auditors for 2016, which is subject to the approval of the shareholders of the Company at the 2016 AGM.

Scope of Work of Ernst & Young

The figures in respect of the Group's results for the year ended 31 December 2015 as set out in this preliminary announcement have been agreed by the Group's independent auditor, Ernst & Young, Certified Public Accountants of Hong Kong ("**Ernst & Young**") to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standard on Review Engagements or Hong Kong Standards on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Ernst & Young on this preliminary announcement of results.

ANNUAL GENERAL MEETING

The 2016 AGM will be held on or before 30 June 2016. A notice convening the 2016 AGM will be published on the website of the Stock Exchange and the Company and dispatched to the shareholders on or before 30 April 2016.

PUBLICATION OF RESULTS ANNOUNCEMENTS 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 2015 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 2016.

APPRECIATION

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

By Order of the Board
Honworld Group Limited
Chen Weizhong
Chairman

Hong Kong, 29 March 2016

As at the date of this announcement, the Board comprises three executive directors, namely, Mr. Chen Weizhong, Mr. Sheng Mingjian and Mr Wang Chao; one non-executive director, namely Mr. Zhang Bihong; and three independent non-executive directors, namely, Mr. Shen Zhenchang, Mr. Lei Jiasu and Mr. Ma Chaosong.