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 2016

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2016 amounted to approximately RMB831.1 million, representing an increase of 4.0% from approximately RMB798.9 million recorded in 2015.
- Gross profit for the year ended 31 December 2016 amounted to approximately RMB445.7 million, representing a decrease of 1.1% from approximately RMB450.9 million recorded in 2015.
- Profit attributable to ordinary equity holders of the parent for the year ended 31 December 2016 amounted to approximately RMB206.6 million, representing a decrease of 9.6% from approximately RMB228.5 million recorded in 2015.
- The Board has recommended the payment of a final dividend of RMB7.2 cents per ordinary share for 2016.

* *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 2016, together with the comparative figures for the year ended 31 December 2015, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	**2016** *RMB'000*	2015 *RMB'000*
REVENUE	*4*	**831,149**	798,861
Cost of sales		**(385,453)**	(347,989)
Gross profit		**445,696**	450,872
Other income and gains	*4*	**8,426**	11,875
Selling and distribution expenses		**(81,225)**	(75,073)
Administrative expenses		**(83,065)**	(80,265)
Other expenses		**(1,271)**	(105)
Finance costs	*6*	**(40,606)**	(32,609)
PROFIT BEFORE TAX	*5*	**247,955**	274,695
Income tax expense	*7*	**(41,319)**	(46,167)
PROFIT FOR THE YEAR		**206,636**	228,528
Attributable to:			
Owners of the parent		**206,636**	228,528
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic and diluted		**RMB38.4 cents**	RMB44.1 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**206,636**	228,528
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**13,115**	233
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**13,115**	233
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**219,751**	228,761

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**810,088**	629,556
Prepaid land lease payments		**51,035**	26,683
Other intangible assets		**414**	414
Prepayments for non-current assets		**335,408**	113,493
Time deposits		**26**	–
Deferred tax assets		**2,666**	2,891
Total non-current assets		**1,199,637**	773,037
CURRENT ASSETS			
Inventories	*10*	**1,088,440**	945,469
Trade receivables	*11*	**162,471**	141,959
Prepayments, deposits and other receivables		**193,386**	249,279
Time deposits		**69,370**	2,874
Pledged deposits		**159,014**	–
Cash and cash equivalents		**291,815**	186,048
Total current assets		**1,964,496**	1,525,629
CURRENT LIABILITIES			
Trade payables	*12*	**143,819**	118,459
Other payables and accruals		**78,510**	55,847
Interest-bearing bank and other borrowings		**777,264**	570,345
Tax payable		**34,701**	37,003
Total current liabilities		**1,034,294**	781,654
NET CURRENT ASSETS		**930,202**	743,975
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,129,839**	1,517,012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2016

	2016	2015
	RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**2,129,839**	1,517,012
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**71,723**	74,415
Other long term liabilities	**137,333**	4,505
Deferred tax liabilities	**18,774**	14,761
Total non-current liabilities	**227,830**	93,681
Net assets	**1,902,009**	1,423,331
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1,767**	1,584
Reserves	**1,900,242**	1,421,747
Total equity	**1,902,009**	1,423,331

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. 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 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 (collectively referred to as the "**Group**") for the year ended 31 December 2016. 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.

2.1 BASIS OF PREPARATION (CONTINUED)

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.

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 IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL 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.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
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]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IFRS 12 Included in *Annual Improvements 2014-2016 Cycle*	*Disclosure of Interests in Other Entities*[1]
Amendments to IFRS 1 Included in *Annual Improvements 2014-2016 Cycle*	*First-time Adoption of International Financial Reporting Standards*[2]
Amendments to IAS 28 Included in *Annual Improvements 2014-2016 Cycle*	*Investments in Associates and Joint Ventures*[2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but 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, except IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, 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:

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**831,149**	798,861
Other income and gains		
Subsidy received	**7,408**	2,161
Interest income	**1,018**	223
Gain upon expiry of warrants	**–**	7,959
Gain from sale of materials	**–**	1,094
Rental income	**–**	438
	8,426	11,875

5. PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
Costs of inventories sold	**385,453**	347,989
Depreciation	**32,017**	27,354
Amortisation of prepaid land lease payments	**1,080**	510
Minimum lease payments under operating leases regarding plant and machinery	**–**	2,242
Auditor's remuneration	**2,012**	1,770
Employee benefit expenses (excluding directors' remuneration):		
– Wages and salaries	**27,479**	18,681
– Pension scheme contributions	**4,313**	2,729
	31,792	21,410
Research and development costs	**51,592**	46,773
Donations	**62**	100

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans	**38,341**	32,609
Interest on finance leases	**2,265**	–
	40,606	32,609

7. 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% (2015: 25%) on the taxable profits, based on the existing legislation, interpretations and practices in respect thereof.

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, both being wholly-owned subsidiaries of the Company, were granted the "New and Advanced Technology Enterprise" status and were entitled to the preferential tax rate of 15% for the three consecutive years commencing from 2016.

	2016	2015
	RMB'000	*RMB'000*
Current – PRC		
Charge for the year	**37,081**	42,721
Deferred	**4,238**	3,446
Total tax charge for the year	**41,319**	46,167

7. INCOME TAX EXPENSE (CONTINUED)

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:

	2016		2015	
	RMB'000	**%**	RMB'000	%
Profit before tax	**247,955**		274,695	
Tax at the statutory tax rate	**61,989**	**25.0**	68,674	25.0
Lower tax rate enacted by the local authority	**(21,612)**	**(8.7)**	(25,787)	(9.4)
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	**4,013**	**1.7**	6,010	2.2
Tax incentive on eligible expenditures	**(3,132)**	**(1.3)**	(2,765)	(1.0)
Expenses not deductible for tax	**61**	**–**	35	–
Tax charge at the Group's effective rate	**41,319**	**16.7**	46,167	16.8

8. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
Proposed final – RMB7.2 cents (2015: RMB8.8 cents) per ordinary share	**41,670**	45,650

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

The 2015 proposed final dividends of RMB45,650,000 were approved by shareholders at the annual general meeting on 31 May 2016 and were subsequently distributed in June 2016.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 538,041,096 (2015: 518,750,000) in issue during the year.

	2016	2015
Profit attributable to ordinary equity holders of the parent (RMB'000)	**206,636**	228,528
Weighted average number of ordinary shares in issue (in thousands)	**538,041**	518,750
Earnings per share attributable to ordinary equity holders of the parent – Basic and diluted (RMB)	**38.4 cents**	44.1 cents

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 in respect of a dilution as the group has no potential dilutive ordinary shares in issue during those years.

10. INVENTORIES

	2016	2015
	RMB'000	*RMB'000*
Raw materials	**11,894**	8,069
Work in progress	**1,049,493**	921,174
Finished goods	**27,053**	16,226
	1,088,440	945,469

11. TRADE RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**162,471**	141,959

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

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

An 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:

	2016	2015
	RMB'000	*RMB'000*
Within 1 month	**119,143**	82,014
1 to 3 months	**41,957**	57,482
3 to 6 months	**498**	1,087
6 months to 1 year	**459**	1,007
Over 1 year	**414**	369
	162,471	141,959

11. TRADE RECEIVABLES (CONTINUED)

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

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**161,100**	139,496
Less than 3 months past due	**498**	1,087
3 to 6 months	**247**	728
6 months to 1 year	**234**	298
Over 1 year	**392**	350
	162,471	141,959

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.

The trade receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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:

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**95,330**	50,338
3 to 6 months	**25,599**	17,704
Over 6 months	**22,890**	50,417
	143,819	118,459

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 condiment products 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, soybean paste and fermented bean curd. In 2016, we were awarded various honours including "Top 100 Business Enterprises in Zhejiang" ("浙江商貿百強企業"), "Crucial Development Enterprises of Zhejiang Province" ("浙江省重點培育企業") "'Three Famous' Development Pilot Enterprises of Zhejiang Province" ("浙江省「三名」培育試點企業"), "Quality Award of Huzhou City Government" ("湖州市市政府質量獎") and "Premier Consumer Product of 2016 in the PRC" ("全國「二零一六年消費金品」"). Moreover, we have been selected as the supplier of food ingredients for the G20 Hangzhou Summit.

In 2016, as regional small retailing channels and catering channels are important components of the sales channels of our condiment industry. In accordance with the market trend, the Group considered that expanding the business in such channels can bring about attractive growth opportunities in the future. Moreover, as the declining trend of revenue and profit of the supermarket industry is unable to contain, the Group has adopted new distribution strategy to explore our sales and marketing channels in diversifying manner. The focus of sales and marketing this year has been shifted from supermarkets distribution channel to integrate the retail channels of dispersed regional small retailers and to explore catering channels and e-commerce channels. Moreover, diversified sales channels are beneficial to the sustainable development of the Group. In order to support the Company's diversified channel development strategy, on the one hand, we have invested more resources in the building up of sales team and channel expansion. The sales and marketing promotional employees employed by our Group increased from 61 as of 31 December 2015 to 240 as of 31 December 2016; on the other hand, we have devoted approximately RMB50.0 million to appoint Mr. Nicholas Tse as our brand ambassador of "Lao Heng He" cooking wine in Mainland China and sponsored Chef Nic (十二道鋒味), a cooking reality show hosted by Mr. Nicholas Tse; we also devoted RMB27.0 million in media advertising. We believe that driven by the marketing resources we invested, the popularity of Mr. Nicholas Tse and the influence of our media advertisement will more effectively promote the "Lao Heng He" brand to the public and thereby enhancing our reputation, complementing our future sales and marketing efforts, and establishing a strong foundation for our endeavor in expanding diversified market channels and future sales growth.

As a result of the expansion of the sales and marketing channel, we have adjusted our product mix correspondingly to better cope with the change in marketing and sales strategy. In this connection, the proportion of sales of our medium-range products had a certain degree of growth compared with that in 2015. On the other hand, as we focused in diversifying our sales and marketing channels this year, our sales and marketing resources devoted in the supermarket channel has decreased as a result.

In 2016, our key product, cooking wine, continued to be our major source of revenue, representing 74.7% of the total revenue. We focused our sales and marketing promotion resources on enhancing sales of our cooking wine, to capitalize on the market strength of "Lao Heng He" ("老恒和") brand to explore diversified sales channel.

The Company has attained the goal for base wine stock disclosed in the Interim Report of 2015; basically, the base wine stock is able to satisfy the demand of the Company's business in the future.

Through our distribution networks, we continued to deeply penetrate our products to third and fourth-tier cities and expand our customer base with the goal of distributing our products all over China. We have approximately 531 new distributors (of which 193 are in Eastern China, 135 are in Central and North Western China, 96 are in Southern China, 69 are in Northern China and 38 are in North Eastern China). Our customers are mainly located in Eastern China, Southern China and Northern China. As at 31 December 2016, we have a total of 898 distributors.

For the year ended 31 December 2016, the Group's revenue reached approximately RMB831.1 million (2015: RMB798.9 million), representing an increase of approximately 4.0% over 2015. Profit attributable to the ordinary equity holders of the parent was approximately RMB206.6 million for the year ended 31 December 2016 (2015: RMB228.5 million), representing a decrease of approximately 9.6% over 2015, which is mainly attributable to the increase in advertising expenses and finance costs and the decrease in gross profit margin.

In 2016, we improved and expanded our production facilities at our plants in Huzhou City, Zhejiang Province, acquired new production equipment and implemented various technical improvements to our production process. This will equip us to cope with the continuous growing market demand for green and healthy condiment products of premium quality.

Financial Review

Overview

The key financial indicators of the Group are as follows:

	Year ended 31 December		
			Year-on-year
	2016	2015	Change
	RMB'000	*RMB'000*	*%*
Income statement items			
Sales	**831,149**	798,861	4.0%
Gross profit	**445,696**	450,872	(1.1%)
Profit attributable to owners of the parent	**206,636**	228,528	(9.6%)
Earnings before interest, taxes, depreciation and amortization ("**EBITDA**")	**321,658**	335,168	(4.0%)
Earning per share (RMB cents) *(Note (a))*	**38.4**	44.1	(12.9%)
Selected financial ratios			
Gross profit margin (%)	**53.6%**	56.4%	(5.0%)
Net profit margin attributable to ordinary equity holders of the parent (%)	**24.9%**	28.6%	(12.9%)
EBITDA margin (%)	**38.7%**	42.0%	7.9%
Return on equity holders' equity (%)	**10.9%**	16.1%	(32.3%)
Gearing ratio *(Note (b))*	**32.5%**	30.9%	5.2%

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 2016. Net debt includes total debt net of cash and cash equivalents. Total debt includes trade payables, other payables and accruals, interest-bearing bank and other borrowings and other long term liabilities.

Revenue

The revenue of the Group, increased by 4.0% from RMB798.9 million in 2015 to RMB831.1 million in 2016, primarily attributed to an increase in the sales of our cooking wine products and other products, and a decrease in sales of our soy sauce products and vinegar products.

Revenue from cooking wine products increased by 6.8% from RMB581.3 million for the year of 2015 to RMB621.0 million for the year of 2016, mainly due to the increase in revenue from our medium-range cooking wine products. With our effort on enhancing the brand image of "Lao Heng He" cooking wine with "naturally-brewed" concept, promoting the brand awareness of "Lao Heng He" by advertisements and the efforts of the diversified distribution channel of our group to deeply penetrate to third and fourth-tier cities, the sales of our cooking wine products kept increasing in 2016, especially our medium-range products, such as Lao Heng He Cooking Wine (老恒和料酒) and Scallion & Ginger Cooking Wine (蔥薑料酒).

Revenue from the Group's soy sauce products and vinegar products decreased by 8.6% and 14.6%, respectively, from RMB108.0 million and RMB87.0 million for the year of 2015 to RMB98.7 million and RMB74.3 million for the year of 2016, respectively. The decrease is mainly attributable to the decrease in our sales and marketing resources devoted in the supermarket channel in 2016.

Revenue from other products increase by 64.2% from RMB22.6 million for the year of 2015 to RMB37.1 million for the year of 2016, which was mainly due to the significant increase in sales of soybean paste product of the Group.

We believe the outstanding performance of our sales are largely attributed to (i) enhanced advertisements to promote the market recognition of the "Lao Heng He" brand; (ii) diversified channels to explore our sales network to deeply penetrate into third and fourth-tier cities; (iii) consistent superior quality of "Lao Heng He" products; (iv) growing consumer consciousness of food safety and preference for naturally-brewed cooking wine products which we introduced to the market; and (v) rising disposable income level of household in the PRC.

Cost of Sales

Our cost of sales increased by 10.8% from RMB348.0 million in 2015 to RMB385.5 million in 2016. The increase in cost of sales was mainly due to the combined effect of the increase in revenue and decrease on the gross profit margin as a result of the decrease in the proportion of sales of high-end products with higher gross profit caused by the increase in the proportion of sales of medium-range products.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 1.1% from RMB450.9 million in 2015 to RMB445.7 million in 2016. The gross profit margin decreased from 56.4% in 2015 to 53.6% in 2016, primarily due to the decrease in the proportion of sales of high-end products with higher gross profit caused by the increase in the proportion of sales of medium-range products.

Other Income and Gains

Other income and gains decreased by 29.4% from RMB11.9 million in 2015 to RMB8.4 million in 2016. Other income and gains primarily include subsidy received, gains from sales of materials and interest income. The decrease in other income and gains was primarily due to the decrease in gain upon expiry of warrants, and offset by the increase in government subsidy received.

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 RMB75.1 million in 2015 to RMB81.2 million in 2016, and the distribution expenses as a percentage of the Group's revenue increased from 9.4% for 2015 to 9.8% for 2016, which is attributable to (i) increase in advertisements and promotion activities to expand the market shares of the products of our Group and our brand; (ii) the increase in the size of the sales and marketing team of our Group in order to strengthen our sales and marketing team to promote business development.

Administrative Expenses

The administrative expenses increased by 3.5% from RMB80.3 million in 2015 to RMB83.1 million in 2016. This increase is attributable to the increase of research and development expenses as our Group made endeavour in research and development to improve the technological contents of the manufacturing craftsmanship and quality of the products of our Group.

Finance Cost

Finance cost increased by 24.5% from RMB32.6 million in 2015 to RMB40.6 million in 2016. The increase in finance cost primarily reflected an increase in interest expenses from RMB32.6 million for the year of 2015 to RMB40.6 million for the year of 2016 as a result of an increase in the average balance of our bank and other borrowings in 2016 to support the expansion of our business and exploration of diversified sales channels.

Profit before Tax

Due to the aforesaid reasons, the profit before tax decreased by 9.7% from RMB274.7 million in 2015 to RMB248.0 million in 2016.

Income Tax Expense

The corporate income tax of the Group in respect of its operations in Mainland China has been provided at the rate of 25% (2015: 25%) on the taxable profits, based on the existing legislation, interpretations and practices in respect thereof.

Pursuant to the approval from the National Office of Leading Group for Administration of Hi-tech Enterprise Recognition, Huzhou Laohenghe Brewery Co., Limited (湖州老恒和釀造有限公司) and Huzhou Laohenghe Wine Co., Limited (湖州老恒和酒業有限公司), both being wholly-owned subsidiaries of the Company, were granted the "New and Advanced Technology Enterprise'' status and were entitled to the preferential tax rate of 15% for the three consecutive years commencing from 2016, remained steady compared to that of 2015 (2015: 15%).

Income tax expense decreased by 10.6% from RMB46.2 million in 2015 to RMB41.3 million in 2016, remained steady compared to that of 2015, mainly due to the decrease in profit before tax.

Profit Attributable to Ordinary Equity Holders of the Parent

Profit attributable to ordinary equity holders of the parent decreased by 9.6% from RMB228.5 million in 2015 to RMB206.6 million in 2016, which is mainly attributable to the increase in advertising expenses as a result of the aforesaid reasons.

Earnings per Share Attributable to Ordinary Equity Holders of the Parent

Basic earnings per share decreased from RMB44.1 cents for 2015 to RMB38.4 cents for 2016. Decrease in earnings per share was attributable to the decrease in profit attributable to ordinary equity holders of the parent and the increase in weighted-average number of issued shares.

Net Profit Margin

Net profit margin decreased by 3.7 percentage points from 28.6% in 2015 to 24.9% in 2016. The decrease in net profit margin was mainly attributable to a decrease in gross profit margin and an increase in selling and distribution expenses and finance costs as a result of the aforesaid reasons.

FINANCIAL AND LIQUIDITY POSITION

Trade receivables

Trade receivables increased from RMB142.0 million as at 31 December 2015 to RMB162.5 million as at 31 December 2016 and the turnover days of trade receivables decreased from 75 days in 2015 to 67 days in 2016, 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 RMB945.5 million as at 31 December 2015 to RMB1,088.4 million as at 31 December 2016, primarily due to an increase in work in progress. A substantial part of our inventories were contributed by work in progress, which mainly represented 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 need to keep an abundant stock of well-aged base wine to cope with the rapid sales growth in the future. The Company has attained the goal for base wine stock disclosed in the Interim Report of 2015; basically, the base wine stock is able to satisfy the demand of the Company's business in the future. In 2016, we increased the inventories of base soy sauce, semi-finished soybean paste and base vinegar to cope with the future growth in sales bringing by the maturity of diversified distribution channel.

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 the warehouses of our Category A and B distributors at least on a monthly basis and those of 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 orders with a smaller amount to be placed for the succeeding periods to minimize excess inventory.

As at 31 December 2016, our inventories with a carrying amount of RMB525.3 million (31 December 2015: RMB366.1 million) were pledged to secure general banking facilities granted to us.

Borrowings

As at 31 December 2016, our total borrowings amounted to RMB849.0 million (31 December 2015: RMB644.8 million) including finance lease payables with a carrying amount of RMB34.4 million (31 December 2015: 55.0 million).

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.

Foreign currency risks

The Group mainly operates in the PRC and conducts its operations mainly 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 2016, the Group has not engaged in hedging activities for managing foreign exchange rate risk.

Liquidity and Financial Resources

As at 31 December 2016, we had cash and cash equivalents of RMB291.8 million (31 December 2015: RMB186.0 million). As at 31 December 2016, we had interest-bearing bank borrowings of an aggregate amount of RMB849.0 million (31 December 2015: RMB644.8 million), which were denominated in RMB with interest rates from 3.92% to 5.70% per annum.

Our principal sources of liquidity include cash generated from business operation, bank borrowings, other borrowings and the proceeds from the Subscription (as defined below). 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.

On 23 June 2016, the Company completed a placing of 60,000,000 ordinary shares (with aggregate nominal value of US$30,000) at a placing price of HK$6 per Share to Natural Seasoning (Hong Kong) Limited (the "**Subscriber**") in accordance with the subscription agreement dated 2 June 2016 (the "**Subscription**"). The Subscriber is a company incorporated in Hong Kong with limited liability and its principal activity is owning and operating companies or businesses focused in the condiments market in the PRC. The Subscriber and its ultimate beneficial owner are independent third parties. For further details of the Subscription, please refer to the announcements of the Company dated 2 June 2016 and 23 June 2016, respectively. The net proceeds after deduction of relevant expenses (including but not limited to legal expenses and disbursements) from the Subscription were approximately HK$356,100,000, representing a net price of approximately HK$5.935 per share. The Board was of the view that the Subscription is in the interests of the Company and the Shareholders as a whole as the cooperation with the Subscriber and its controlling shareholder will (i) broaden the shareholder base of the Company and enhance the Company's profile; and (ii) the Subscription will strengthen the Company's capital base and financial position. The net proceeds from the Subscription will be used by the Company for general working capital of the Group.

GEARING RATIO

The gearing ratio of the Group was 32.5% as at 31 December 2016, representing an increase of 1.6 percentage points over 2015.

The gearing ratio is based on net debt divided by total equity and net debt as at 31 December 2016. Net debt includes total debt net of cash and cash equivalents. Total debt includes trade payables, other payables and accruals, interest-bearing bank and other borrowings and other long term liabilities.

CAPITAL COMMITMENT

Capital commitment as at 31 December 2016 amounted to approximately RMB56.1 million (31 December 2015: RMB30.2 million), which was mainly related to construction in progress for expansion of plant and machinery.

CONTINGENT LIABILITIES

As at 31 December 2016, we did not have any material contingent liability.

PLEDGE OF ASSETS

As at 31 December 2016, our inventories with a carrying amount of RMB525.3 million, property, plant and equipment with a carrying amount of RMB97.2 million, leasehold land with a carrying amount of RMB40.4 million, trade receivables with a carrying amount of RMB23.1 million and time deposits with a carrying amount of RMB159.0 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 engage 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 2016.

FUTURE PROSPECTS

In 2017, we will continue to pursue to diversify and improve the quality of our products as our business strategy, amidst the challenges brought by the complex and changing market conditions to the development of our industry, in order to maintain a steady growth of our business and continue to generate returns for our shareholders. Condiment products, being plentiful in terms of type and with a range of diversity, are not only the necessities closely associated with diet, but also closely linked with the development of the catering and food processing industry. In this connection, we hope to allocate resources in a more sensible manner through diversifying our distribution channels, so as to optimise the mix of these distribution channels and establish a strong foundation for growth in our sales in the coming years.

In the course of the "New Normal" ("新常態"), the Chinese Central Government advocates a sustainable domestic consumption-led growth and quality improvement over quantitative growth by aiding the technology upgrade of traditional manufacturing and respecting craftsmanship. Accordingly, a consumption upgrade of condiment products will be a trend in the future. We are optimistic towards our potential in the condiments market with our naturally-brewed condiment products of safer, healthier and higher quality.

Meanwhile, with the call for "Reform of the Supply Side" ("供給側改革") by the Chinese Government, there will be a breakthrough for the condiments industry which has a low centration and where great difference in development exists. In this connection, with the excellent brand awareness, modernised traditional craftsmanship, mature quality management and monitoring system and comprehensive system for research and development, products of our "Lao Heng He" brand will be afforded more room of development, which further pull away our distance from our competitors in terms of level of development.

As a result of the foregoings, we believe products of our "Lao Heng He" brand will continue to expand in China.

GOALS AND STRATEGIES

In 2017, our business strategy will pursue the "DIVERSIFIED" ("多元化") strategy, focusing our investment and resources on exploring sales channels and our product offerings. We focus on our sales strategy around our consumers and endeavour to achieve higher customer loyalty. We focus on providing safer and healthier naturally-brewed condiment products with premium quality to consumers.

We are determined to fortify our position in the condiments industry through expanding our sales channel in diversifying manner, with the assistance of our leadership position in the cooking wine industry. In order to better accommodate our strategy to expand our channels in diversifying manner and deepen the penetration of our distribution network to third and fourth-tier cities, we plan to continue to ensure appropriate allocation of resources in sales and marketing and advertising spending, to raise our customers' awareness to the products of our "Lao Heng He" brand, and also to focus on introducing the excellent quality and healthiness of our products to our consumers. To better improve the experience of our customers, we will build two sales teams. The first sales team will focus on exploring for and serving our distributors, and supervising the implementation of our sales policies, and the second sales team will focus on sales and distribution policies, serving our key products and key outlets and promoting our products to consumers. In respect of the expansion of distributors, we will continue to cooperate with capable distributors among our diversified channels, and continue to actively improve the market share of our "Lao Heng He" brand in the PRC market. "Lao Heng He" aims to become the top choice for consumers.

We aim at improving the modernised traditional craftsmanship, optimizing the quality control system, and increase the capability in product research and development, through research and development and innovation of traditional production techniques, to ensure the consistent quality of excellence of "Lao Heng He" brand.

We have been improving our research and development capabilities to focus on standardization of production process, new product development and product improvement to prepare ourselves for future development opportunities as well as guard against the increase of raw material price and change in market demand. In response to the rising manufacturing and logistics costs resulted under the influence of policies like greener environment, structural adjustment, relaxation of overcapacity and reduction of inventory (重環保、調結構、去產能、去庫存) since 2016, we have raised the price of certain products of the Group by 10% in February 2017. In the future, the Company will appropriately adjust the selling price of our products according to the market conditions from time to time.

We also pay close attention from time to time and act actively towards the following risks that may be brought about by the growth. We will adopt fine measures and upgrade the information technology system in our management to respond to the management and administrative complexity brought about by the fast expansion of our sales team. We will provide all-rounded and systematic training to our sales personnel to respond to the possible negative impact brought about to the sales of our Group's products by the sales personnel with less experience or capability. We will improve our credit risk management system to respond to the complexity of sales policies and credit terms management brought about by the expansion in number of distributors. We will build information-sharing platform to strengthen internal communications to respond to the negative impact on our sales and our distributors, which is caused by the difference in pricing policy in different geographical locations that leads to cross-sales of products to other exclusively-authorized distribution areas.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Company or by the Group after 31 December 2016.

EMPLOYEES

As at 31 December 2016, we had approximately 561 full-time employees, as compared to 303 employees as at 31 December 2015. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits, 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 2016 (31 December 2015: nil).

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 2016.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB7.2 cents per ordinary share for the year ended 31 December 2016 to the shareholders whose names appear on the register of members of the Company on 15 June 2017 (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 31 May 2017 (the "**2017 AGM**"), the Proposed Final Dividend is expected to be paid on or about 4 July 2017.

CLOSURE OF REGISTER OF MEMBERS FOR 2017 AGM

For the purpose of determining the rights to attend and vote at the 2017 AGM, the register of members of the Company will be closed from 24 May 2017 to 31 May 2017 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to be entitled to attend and vote at the 2017 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 23 May 2017.

CLOSURE OF REGISTER OF MEMBERS FOR PROPOSED FINAL DIVIDEND

The payment of the Proposed Final Dividend is subject to the approval of the shareholders at the 2017 AGM. For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from 12 June 2017 to 15 June 2017 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be entitled to the Proposed Final Dividend, 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 9 June 2017.

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 2016, 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.

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 2016. 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 2016.

REVIEW OF ANNUAL RESULTS

Audit Committee

The audit committee of the Company (the "**Audit Committee**") (which comprises non-executive Director, namely Mr. Sun Qingdong, and all independent non-executive directors, namely Mr. Ma Chaosong (Chairman), Mr. Lei Jiasu, Mr. Shen Zhenchang) has reviewed the consolidated financial statements of the Group for the year ended 31 December 2016, 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 2017, which is subject to the approval of the shareholders of the Company at the 2017 AGM.

Scope of Work of Ernst & Young

The figures in respect of the Group's results for the year ended 31 December 2016 as set out in the 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 the preliminary announcement of results.

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 2016 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 2017.

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, 30 March 2017

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. Sun Qingdong; and three independent non-executive directors, namely, Mr. Shen Zhenchang, Mr. Lei Jiasu and Mr. Ma Chaosong.