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 2017

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2017 amounted to RMB803.1 million, representing a decrease of 3.4% from RMB831.1 million recorded in 2016.
- Gross profit for the year ended 31 December 2017 amounted to RMB429.5 million, representing a decrease of 3.6% from RMB445.7 million recorded in 2016.
- Profit attributable to ordinary equity holders of the parent for the year ended 31 December 2017 amounted to RMB186.8 million, representing a decrease of 9.6% from RMB206.6 million recorded in 2016.
- The Board has recommended the payment of a final dividend of RMB6.5 cents per ordinary share for 2017.

* *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 2017, together with the comparative figures for the year ended 31 December 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	4	**803,141**	831,149
Cost of sales		**(373,615)**	(385,453)
Gross profit		**429,526**	445,696
Other income and gains	4	**19,755**	8,426
Selling and distribution expenses		**(110,985)**	(81,225)
Administrative expenses		**(71,906)**	(83,065)
Other expenses		**(1,465)**	(1,271)
Finance costs	6	**(48,840)**	(40,606)
PROFIT BEFORE TAX	5	**216,085**	247,955
Income tax expense	7	**(29,310)**	(41,319)
PROFIT FOR THE YEAR		**186,775**	206,636
Attributable to:			
Owners of the parent		**186,775**	206,636
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted		**RMB32.3 cents**	RMB38.4 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**186,775**	206,636
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(13,275)**	13,115
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(13,275)**	13,115
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**173,500**	219,751

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**938,404**	810,088
Prepaid land lease payments		**53,249**	51,035
Other intangible assets		**414**	414
Prepayments for non-current assets		**390,744**	335,408
Time deposits		**–**	26
Deferred tax assets		**2,254**	2,666
Total non-current assets		**1,385,065**	1,199,637
CURRENT ASSETS			
Inventories	*10*	**1,189,931**	1,088,440
Trade receivables	*11*	**129,547**	162,471
Prepayments, deposits and other receivables		**191,271**	193,386
Time deposits		**–**	69,370
Pledged deposits		**76,047**	159,014
Cash and cash equivalents		**443,893**	291,815
Total current assets		**2,030,689**	1,964,496
CURRENT LIABILITIES			
Trade payables	*12*	**153,539**	143,819
Other payables and accruals		**85,628**	78,510
Interest-bearing bank and other borrowings		**892,555**	777,264
Tax payable		**28,168**	34,701
Total current liabilities		**1,159,890**	1,034,294
NET CURRENT ASSETS		**870,799**	930,202
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,255,864**	2,129,839

	2017	2016
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**62,254**	71,723
Other long term liabilities	**137,179**	137,333
Deferred tax liabilities	**22,592**	18,774
Total non-current liabilities	**222,025**	227,830
Net assets	**2,033,839**	1,902,009
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1,767**	1,767
Reserves	**2,032,072**	1,900,242
Total equity	**2,033,839**	1,902,009

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 2017. 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.

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 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Disclosures of the changes in liabilities arising from financing activities is provided in note 27 to these financial statements.

Other than as explained above regarding the impact of amendments to IAS 7, the adoption of the above revised standards has had no significant financial effect on these financial statements of the Group.

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*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to the following two IFRSs: — IFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*[1] — IAS 28 *Investments in Associates and Joint Ventures*[1]
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to a number of IFRS3, IFRS11, IAS12 and IAS23[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2021
[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 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 that manufactures and sells condiment products.

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

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:

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**803,141**	831,149
Other income and gains		
Subsidy received	**10,222**	7,408
Interest income	**2,212**	1,018
Foreign exchange gain, net	**7,235**	–
Others	**86**	–
	19,755	8,426

5. PROFIT BEFORE TAX

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

	2017	2016
	RMB'000	*RMB'000*
Costs of inventories sold	**373,615**	385,453
Depreciation	**38,208**	32,017
Amortisation of prepaid land lease payments	**1,284**	1,080
Minimum lease payments under operating leases regarding plant and machinery	**2,358**	–
Auditor's remuneration	**1,958**	2,012
Employee benefit expenses (excluding directors' remuneration):		
— Wages and salaries	**42,995**	27,479
— Pension scheme contributions	**7,848**	4,313
	50,843	31,792
Research and development costs	**39,874**	51,592
Donations	**67**	62
Foreign exchange differences, net	**(7,235)**	–

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
	RMB'000	*RMB'000*
Interest on bank loans	**46,063**	38,341
Interest on finance leases	**2,777**	2,265
	48,840	40,606

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% (2016: 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 are entitled to the preferential tax rate of 15% for the three consecutive years commencing from 2016.

	2017	2016
	RMB'000	*RMB'000*
Current – PRC		
Charge for the year	**25,080**	37,081
Deferred	**4,230**	4,238
Total tax charge for the year	**29,310**	41,319

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:

	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**216,085**		247,955	
Tax at the statutory tax rate	**54,021**	**25.0**	61,989	25.0
Lower tax rate enacted by the local authority	**(22,134)**	**(10.2)**	(21,612)	(8.7)
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	**3,818**	**1.8**	4,013	1.7
Tax incentive on eligible expenditures	**(6,895)**	**(3.2)**	(3,132)	(1.3)
Expenses not deductible for tax	**500**	**0.2**	61	–
Tax charge at the Group's effective rate	**29,310**	**13.6**	41,319	16.7

8. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Proposed final – RMB6.5 cents (2016: RMB7.2 cents) per ordinary share	**37,619**	41,670

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

The 2016 proposed final dividend of RMB41,670,000 was approved by Company's shareholders at the annual general meeting on 31 May 2017 and was subsequently distributed in July 2017.

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 578,750,000 (2016: 538,041,096) in issue during the year.

	2017	2016
Profit attributable to ordinary equity holders of the parent (RMB'000)	**186,775**	206,636
Weighted average number of ordinary shares in issue (in thousands)	**578,750**	538,041
Earnings per share attributable to ordinary equity holders of the parent – Basic and diluted (RMB)	**32.3 cents**	38.4 cents

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during those years.

10. INVENTORIES

	2017 *RMB'000*	2016 *RMB'000*
Raw materials	**14,079**	11,894
Work in progress	**1,142,158**	1,049,493
Finished goods	**33,694**	27,053
	1,189,931	1,088,440

11. TRADE RECEIVABLES

	2017 *RMB'000*	2016 *RMB'000*
Trade receivables	**129,547**	162,471

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

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

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

	2017	2016
	RMB'000	*RMB'000*
Within 1 month	**60,548**	119,143
1 to 3 months	**51,936**	41,957
3 to 6 months	**16,279**	498
6 months to 1 year	**617**	459
Over 1 year	**167**	414
	129,547	162,471

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:

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**112,484**	161,100
Less than 3 months past due	**16,279**	498
3 to 6 months	**207**	247
6 months to 1 year	**419**	234
Over 1 year	**158**	392
	129,547	162,471

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

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**72,567**	95,330
3 to 6 months	**56,730**	25,599
Over 6 months	**24,242**	22,890
	153,539	143,819

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 brewed cooking wine as well as other condiments, including naturally-brewed soy sauce, vinegar, soybean paste and fermented bean curd. In 2017, we attained the following achievements:

(1) "Lao Heng He" was accredited as "China's Centenarian Brand" (中華百年傳承品牌) and its brewing techniques were included in the provincial intangible cultural heritage representative list;

(2) The R&D center for bioengineering jointly operated with Jiangnan University was formally established, and has obtained a number of scientific and technological achievements such as the research on the control of rancid microorganisms in rice wine tanks, the research on flavor enhancement technology and the development of functional rose fermented bean curd;

(3) We were involved in the formulation of the quality and manufacturing standards for brewing of cooking wine in the second batch of the companies referred in "Made in Zhejiang Standard" (浙江製造標準); and

(4) We were selected as the designated supplier of condiments for 2017 BRICS Summit held in Xiamen.

In 2017, we continued to transform and upgrade our sales channels and implement diversified development strategies as the condiment industry as a whole kept expanding as a result of the upgrade of the household and catering consumption and over 70% of such market expansion and increment are attributable to the distribution channels and catering channels. We continued to commit most of our sales and marketing resources to the establishment of the distribution channels, catering channels and e-commerce channels (the "**New Sales Channels**"). Our product distribution terminals have further penetrated into the markets of the third and fourth-tier cities, counties, villages and towns, which helps us to respond promptly to the market and speed up product distribution.

In 2017, our channel transformation began to take shape and sales from the New Sales Channel significantly increased as compared to the corresponding period in 2016, among which sales from the distribution channels increased from RMB258.5 million in 2016 to RMB345.8 million in 2017, representing an increase of 33.8%. Sales from the catering channels and the e-commerce channels increased from RMB8.4 million in 2016 to RMB24.4 million in 2017, representing an increase of 190.5%.

With the development of New Sales Channels, the total number of our clients increased from 898 as at 31 December 2016 to 1,220 as at 31 December 2017, representing an increase of 35.9%. Among which, clients from the distribution channels increased from 856 as at 31 December 2016 to 1,089 as at 31 December 2017, representing an increase of 27.2%. Other New Sales Channels recorded growth of various degrees. However, sales from the supermarket channel decreased by 23.3% from RMB564.2 million in 2016 to RMB432.9 million in 2017 due to the overall sluggishness of the supermarket industry and its less prominent advantage over other sales channels, as well as less marketing resources being allocated to the supermarket channels.

As a result of the above, for the year ended 31 December 2017, the Group's revenue reached approximately RMB803.1 million (2016: RMB831.1 million), representing a decrease of approximately 3.4% over 2016. Profit attributable to the ordinary equity holders of the parent was approximately RMB186.8 million for the year ended 31 December 2017 (2016: RMB206.6 million), representing a decrease of approximately 9.6% over 2016. As the New Sales Channels became mature, the growth of our sales expenses slowed down. The downward trend of our profits was mitigated, leading to the net profit for the second half of 2017 similar to that for the same period in 2016.

In 2017, our key products, namely cooking wine, remained a major source of revenue, representing 72.2% of the total revenue. In view of the client's growing demand from the New Sales Channels and the anticipated sales growth of soy sauce, rice vinegar, fermented bean curd and other products upon the further development of New Sales Channels, we consider that a rich and diversified condiment portfolio would be more beneficial to the business development of the Group in the coming years. Thus, we will increase the production capacity of soy sauce, rice vinegar, fermented bean curd and other products, so as to diversify the existing portfolio of condiment products of the Group. We believe that cooking wine products are complementary with other products in terms of resource advantages, such that we will be able to develop an in-depth industry chain for the Group's condiment products at multiple levels, thereby turning Lao Heng He into a diversified condiment manufacturer with cooking wine as a dominant product.

We have a huge base wine stock and continuously made technological improvements to the production process to meet the demand for the future "naturally-brewed" cooking wine production. Therefore, we believe that even if new competitors enter the cooking wine industry, they can hardly dent our leading position in the industry within a short period of time. On the other hand, we will soon complete the construction of a new plant in Huzhou City, Zhejiang Province and purchase a new production line of soy sauce and fermented bean curd. This will equip us to cope with the continuous growing market demand for green and healthy condiment products of premium quality.

Our profitability mainly depends on the product price and our cost of sales, our sales and marketing strategy and the product structure and mix. We are actively monitoring any potential risk factors that may have impact on our financial results, and trying to mitigate any increasing costs and expenses with more efficient operation, higher profit margins and better product mix and sales channels. However, the Group does face certain risks in its business development, which include: 1) risk of significant increase in production cost, 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 consumption behaviour of consumers for condiment products; 3) the greater-than-expected increase in cost from market expansion and selling expenses; 4) the possible failure of our new products to obtain market recognition in the short run; and 5) increasing complexity of managing sales policies and credit terms due to rapid expansion of our distributors.

Financial Review

Overview

The key financial indicators of the Group are as follows:

	Year ended 31 December		
	2017	2016	Year-on-year Change
	RMB'000	*RMB'000*	*%*
Income statement items			
Sales	**803,141**	831,149	(3.4%)
Gross profit	**429,526**	445,696	(3.6%)
Profit attributable to owners of the parent	**186,775**	206,636	(9.6%)
Earnings before interest, taxes, depreciation and amortization ("**EBITDA**")	**304,417**	321,658	(5.4%)
Earnings per share (RMB cents) *(Note (a))*	**32.3**	38.4	(15.9%)
Selected financial ratios			
Gross profit margin (%)	**53.5%**	53.6%	(0.2%)
Net profit margin attributable to ordinary equity holders of the parent (%)	**23.3%**	24.9%	(6.4%)
EBITDA margin *(%)*	**37.9%**	38.7%	(2.1%)
Return on equity holders' equity (%)	**9.2%**	10.9%	(15.6%)
Gearing ratio *(Note (b))*	**30.4%**	32.5%	(6.5%)

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 2017. 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 decreased by 3.4% from RMB831.1 million in 2016 to RMB803.1 million in 2017, primarily attributable to (i) the New Sales Channels bring significant growth to the Group's sales in 2017 after certain amount of time, sales and marketing resources have been devoted by the Group for construction and penetration of New Sales Channels; and (ii) a decrease in sales from the supermarket channels resulted from a decrease in sales activities for such channels as the Group has allocated most of its sales and marketing resources for the establishment of New Sales Channels.

Revenue from cooking wine products decreased by 6.6% from RMB621.0 million in 2016 to RMB580.2 million in 2017, primarily due to less sales and marketing resources being devoted to supermarket channel during 2017 which resulted in the decrease in the sales of cooking wine products mainly sold through the supermarket channel.

Revenue from the Group's soy sauce products and vinegar products increased by 4.0% and 0.5%, respectively, from RMB98.7 million and RMB74.3 million in 2016 to RMB102.6 million and RMB74.7 million in 2017, respectively. This mainly reflects the increase in sales of the aforesaid products through the New Sales Channel.

Revenue from other products increased by 22.9% from RMB37.1 million in 2016 to RMB45.6 million in 2017, which was mainly due to the substantial increase in sales of the fermented bean curd products of the Group.

Cost of Sales

Our cost of sales decreased by 3.1% from RMB385.5 million in 2016 to RMB373.6 million in 2017. The decrease in cost of sales was primarily attributable to the decrease in revenue.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 3.6% from RMB445.7 million in 2016 to RMB429.5 million in 2017. The gross profit margin decreased from 53.6% in 2016 to 53.5% in 2017, primarily due to the combined effect of the increase in price of some of our products by 10% in 2017 and lower proportion of sales of products with higher gross profit margin.

Other Income and Gains

Other income and gains increased by 134.5% from RMB8.4 million in 2016 to RMB19.8 million in 2017. Other income and gains primarily include subsidies received, gains from sales of materials, interest income and foreign exchange gains. The increase in other income and gains was primarily due to the increase in foreign exchange gains and government subsidies 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 RMB81.2 million in 2016 to RMB111.0 million in 2017, and the distribution expenses as a percentage of the Group's revenue increased from 9.8% in 2016 to 13.8% in 2017, primarily as a result of (i) the increase in market expenses to expand our New Sales Channels; (ii) the increase in salary of the sales personnel as an incentive for them to promote the establishment of sales channels; and (iii) the increase in logistic costs caused by the expansion of sales network.

Administrative Expenses

The administrative expenses decreased by 13.4% from RMB83.1 million in 2016 to RMB71.9 million in 2017. The decrease in administrative expenses was due to a decrease in research and development investment resulting from two factors: the Group is still actively exploring the demand of the consumers in the New Sales Channels for this period; and the research and development of improving the technological contents of the manufacturing craftsmanship and quality of the cooking wine products of the Group have achieved stage result.

Finance Costs

Finance costs increased by 20.2% from RMB40.6 million in 2016 to RMB48.8 million in 2017. The increase in finance costs primarily reflected the increase in interest expenses from RMB40.6 million in 2016 to RMB48.8 million in 2017 as a result of an increase in the average balance of our bank and other borrowings in 2017 to support the expansion of our business.

Profit before Tax

Due to the aforesaid reasons, the profit before tax decreased by 12.9% from RMB248.0 million in 2016 to RMB216.1 million in 2017.

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% (2016: 25%) on the taxable profits, based on the existing laws, 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 three consecutive years commencing from 2016, remained steady compared to that of 2016 (2016: 15%).

Income tax expense decreased by 29.1% from RMB41.3 million in 2016 to RMB29.3 million in 2017, 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 RMB206.6 million in 2016 to RMB186.8 million in 2017, which is mainly attributable to the aforesaid reasons.

Earnings per Share Attributable to Ordinary Equity Holders of the Parent

Basic earnings per share decreased from RMB38.4 cents in 2016 to RMB32.3 cents in 2017. Decrease in earnings per share was attributable to the decrease in profit attributable to ordinary equity holders of the parent.

Net Profit Margin

Net profit margin decreased by 1.6 percentage points from 24.9% in 2016 to 23.3% in 2017. The decrease in net profit margin was mainly attributable to the increase in sales and distributing expenses and finance costs as a result of the aforesaid reasons.

FINANCIAL AND LIQUIDITY POSITION

Prepayments for Non-current Assets

Prepayments for non-current assets of the Group primarily include the following two aspects: (1) prepayments to equipment manufacturers in respect of customizing equipment for the Group; and (2) prepayments to major contractors of the projects before entering into formal construction contracts. Prepayments for non-current assets were made primarily for containing the costs of major materials related to capital expenditure so as to reduce the risk to the Group due to the increasing capital expenditure scale.

Prepayments for non-current assets increased by 16.5% from RMB335.4 million as at 31 December 2016 to RMB390.7 million as at 31 December 2017. The increase in prepayments for non-current assets was mainly attributable to our plan to diversify our product structure and expand production capacity of condiments in the coming year.

Trade receivables

Trade receivables decreased from RMB162.5 million as at 31 December 2016 to RMB129.5 million as at 31 December 2017 and the turnover days of trade receivables decreased from 67 days in 2016 to 65 days in 2017, mainly reflecting the increase in the proportion of sales to categories C and D distributors with 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 have implemented a multi-category distributor system to manage distribution of its products since 2011. We classify our distributors into Categories A (the highest), B, C and D based on their distribution scale and capabilities.

Inventories

Inventories increased from RMB1,088.4 million as at 31 December 2016 to RMB1,189.9 million as at 31 December 2017, primarily due to the increase in work in progress. A substantial part of our inventories are work in progress, mainly represented by 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. In 2017, we increased the inventories of base soy sauce to cope with the future growth in sales bringing by the matureness of diversified distribution channel.

We regularly monitor the inventory level maintained by our distributors. 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 weekly basis and those of Category C and D distributors on a monthly basis 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 subsequent periods to minimize excess inventory.

As at 31 December 2017, our inventories with a carrying amount of RMB803.5 million (31 December 2016: RMB525.3 million) were pledged as floating charge to secure general banking facilities granted to us.

Borrowings

As at 31 December 2017, our total borrowings amounted to RMB954.8 million (31 December 2016: RMB849.0 million), including finance lease payables with a carrying amount of RMB102.0 million (31 December 2016: RMB34.4 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 2017, the Group was not engaged in hedging activities for managing foreign exchange rate risk.

Liquidity and Financial Resources

As at 31 December 2017, we had cash and cash equivalents of RMB443.9 million (31 December 2016: RMB291.8 million). As at 31 December 2017, we had interest-bearing bank and other borrowings of an aggregate amount of RMB954.8 million (31 December 2016: RMB849.0 million), which were denominated in RMB with interest rates from 4.35% to 5.99% 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.

As at the date of this announcement, the breakdown of the use of net proceeds from the Subscription is as follows:

	Intended use		Amount utilized		The remaining balance	
	(Approximately HK$ million)	*(Approximately RMB million)*	*(Approximately HK$ million)*	*(Approximately RMB million)*	*(Approximately HK$ million)*	*(Approximately RMB million)*
Expansion of sales network	142.4	121.8	117.5	100.5	24.9	21.3
Expansion of production facilities	178.1	152.3	178.1	152.3	–	–
General working capital	35.6	30.5	35.6	30.5	–	–
Total	356.1	304.6	331.2	283.3	24.9	21.3

GEARING RATIO

The gearing ratio of the Group was 30.4% as at 31 December 2017, representing a decrease of 2.1 percentage points over 2016.

The gearing ratio is based on net debt divided by total equity and net debt as at 31 December 2017. 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 2017 amounted to RMB103.6 million (31 December 2016: RMB56.1 million), which was mainly related to the construction in progress for expansion of plant and increase of machinery.

CONTINGENT LIABILITIES

As at 31 December 2017, we did not have any material contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2017, our inventories with a carrying amount of RMB803.5 million, property, plant and equipment with a carrying amount of RMB141.2 million, leasehold land with a carrying amount of RMB34.8 million, and deposits with a carrying amount of RMB76.0 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.

MATERIAL ACQUISITION AND DISPOSAL

The Company has no material acquisition and disposal as at 31 December 2017.

FUTURE PROSPECTS

China's economy has currently shifted from a high-speed growth phase to a high-quality development phase and is now in the transition period of optimising the economic structure. The pattern of the condiment industry with low concentration and relatively large differences in development level will be broken.

Specific changes include (1) industrialized and modernized production methods incorporating traditional craftsmanship being more widely applied; (2) consumers expediting its upgrade on consumption of condiment products; (3) the technological content and the requirement over the quality of condiment products further accelerating; and (4) the degree of concentration of condiment production becoming more intensified.

Under such a general trend, our "Lao Heng He" products with outstanding brand awareness, modernized traditional craftsmanship, mature quality control mechanism and perfect product R&D system will gain more room for development. Leveraging on our product quality and technology as our core-competiveness, we will stand out amid fierce market competition through differentiation in product quality.

In addition to maintaining the leading position of our cooking wine products, we will endeavor to adhere to our strategy of "Diversified" product structure so as to meet the diversified market demand for green and healthy condiment products of premium flavor. Furthermore, we also keep expanding our production capacity with expectation to enjoy economy of scale and therefore enhance our overall profitability. The new investment in new plants and equipment is expected to boost our annual production capacity of soy sauce by 50,000 tons, vinegar by 20,000 tons and fermented bean curd by 10,000 tons.

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

GOALS AND STRATEGIES

In 2018, we will continue to pursue the "DIVERSIFIED (多元化)" strategy, concentrating our investment and resources on exploring sales channels and product offerings. We will adhere to a consumer-oriented sales strategy and endeavor to achieve higher customer loyalty. We focus on providing consumers with safer and healthier naturally-brewed condiment products of premium quality.

We are determined to consolidate our position in the condiments industry by diversifying our sales channels and promoting the sales of combined products, leveraging on our leading position in the cooking wine industry. In order to better implement our strategy to diversify our channels and deepen the penetration of our distribution network in 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. On the one hand, we will further increase the investment in the establishment of the marketing team. On the other hand, we will make use of the traditional television media, new media and self-media to enhance our brand value in multiple dimensions by integrating the digital marketing and e-commerce platform. In respect of the expansion of distributors, we will continue to cooperate with capable distributors through our diversified channels, and continue to actively improve the market share of our "Lao Heng He" brand in the PRC market.

In addition, we also take proactive approach in building up our internet sale platform. In 2017, we opened a new store on WeChat mall (微商城) and was recognized by NetEase as its designated condiment supplier. We will commit more sales and marketing resources from now on to cooperate with more premium internet sale platforms as a way to boost our sales from e-commerce channels.

We will always pay close attention to and actively address any risks that may come along with growth. In 2017, we formulated and optimized our company's standardized production system and upgraded the information technology system to cope with the fast expansion of our sales team. Apart from that, we will continue to provide more comprehensive and systematic training to our expanding sales team to respond to the possible negative impact on the sales of our Group's products brought about by the deficiency of our sales teams. We will keep improving our credit risk management system to respond to the complexity of sales policies and credit terms management as a result of the increasing number of distributors. We will also continue to build an 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.

"Lao Heng He" strives to become the preferred choice of consumers.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Company or by the Group after 31 December 2017.

EMPLOYEES

As at 31 December 2017, we had 606 full-time employees, as compared to 561 employees as at 31 December 2016. 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 2017 (31 December 2016: 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 2017.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB6.5 cents per ordinary share for the year ended 31 December 2017 to the shareholders whose names appear on the register of members of the Company on 15 June 2018 (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 2018 (the "**2018 AGM**"), the Proposed Final Dividend is expected to be paid on or about 4 July 2018.

CLOSURE OF REGISTER OF MEMBERS FOR 2018 AGM

For the purpose of determining the rights to attend and vote at the 2018 AGM, the register of members of the Company will be closed from 28 May 2018 to 31 May 2018 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the 2018 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 25 May 2018.

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 2018 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 2018 to 15 June 2018 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for 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 11 June 2018.

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 2017, 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 2017. 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 2017.

REVIEW OF ANNUAL RESULTS

Audit Committee

The audit committee of the Company (the "**Audit Committee**") (which comprises non-executive Director, namely Ms. Qian Yinglan, and all independent non-executive Directors, namely Mr. Ng Wing Fai (Chairman), Mr. Sun Jiong, Mr. Shen Zhenchang) has reviewed the consolidated financial statements of the Group for the year ended 31 December 2017, 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 auditor for 2018, which is subject to the approval of the shareholders of the Company at the 2018 AGM.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY THE INDEPENDENT AUDITOR

The figures in respect of the Group's results for the year ended 31 December 2017 as set out in this preliminary results 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 Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Ernst & Young on this preliminary results announcement.

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 2017 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 2018.

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 2018

As at the date of this announcement, the executive Directors of the Company are Chen Weizhong, Sheng Mingjian and Wang Chao; and the non-executive Director of the Company is Qian Yinglan; and the independent non-executive Directors of the Company are Shen Zhenchang, Ng Wing Fai and Sun Jiong.