China Candy Holdings Limited

中國糖果控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8182

Annual Report 2016

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CORPORATE INFORMATION

Registered Office in the Cayman Islands

P.O. Box 1350
Clifton House, 75 Fort Street
Grand Cayman, KY1-1108
Cayman Islands

Headquarter

Wuli Industrial Zone
Jinjiang
Fujian Province
China

Principal Place of Business in Hong Kong under Part 16 of the Companies Ordinance

Room 1603, 16/F
China Building
29 Queen's Road Central
Central, Hong Kong

Executive Directors

Mr. Xu Jinpei *(Chairman)*
Ms. Hong Yinzhi *(Chief Executive Officer)*
Ms. Li Yuna *(appointed on 30 December 2016)*
Ms. Yvonne Hung *(appointed on 2 February 2017)*

Independent Non-executive Directors

Mr. Chiu Sai Chuen Nicholas
Mr. Chu Wai Wa Fangus
Mr. Kwong Ping Man *(resigned on 29 February 2016)*
Mr. Ong King Keung *(appointed on 29 February 2016)*

Company Secretary

Ms. So Hau Kit *ACIS, ACS*

Compliance Officer

Ms. Hong Yinzhi

Audit Committee

Mr. Kwong Ping Man *(Chairman)*
(resigned on 29 February 2016)
Mr. Ong King Keung *(Chairman)*
(appointed on 29 February 2016)
Mr. Chiu Sai Chuen Nicholas
Mr. Chu Wai Wa Fangus

Remuneration Committee

Mr. Chu Wai Wa Fangus *(Chairman)*
Ms. Hong Yinzhi
Mr. Kwong Ping Man *(resigned on 29 February 2016)*
Mr. Ong King Keung *(appointed on 29 February 2016)*

Nomination Committee

Mr. Xu Jinpei *(Chairman)*
Mr. Chiu Sai Chuen Nicholas
Mr. Kwong Ping Man *(resigned on 29 February 2016)*
Mr. Ong King Keung *(appointed on 29 February 2016)*

Compliance Committee

Ms. Hong Yinzhi *(Chairman)*
Mr. Wang Zhihong
Ms. Yu Yanying
Mr. Lei Weichang
Ms. So Hau Kit

Authorized Representatives

Ms. Hong Yinzhi
Ms. So Hau Kit

Principal Share Registrar and Transfer Office in the Cayman Islands

Estera Trust (Cayman) Ltd.
P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman, KY1-1108
Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Banker

China Construction Bank

Compliance Adviser

TC Capital International Limited

Auditors

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Legal Advisor as to Hong Kong Laws

Loong & Yeung

Company's Website

www.holeywoodfood.com

Stock Code

8182

FINANCIAL SUMMARY

	Year ended 31 December 2016 RMB'000	2015 RMB'000	Change
Revenue	**75,757**	81,224	-6.7%
Gross profit	**15,983**	20,466	-21.9%
Loss before tax	**2,127**	187	1,037.4%
Loss for the year	**3,291**	4,886	-32.6%
Loss per share – Basic and diluted (RMB cents)	**0.25**	0.44	-43.2%
Proposed dividend per share	**–**	–	–

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present to you the annual results of China Candy Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2016 (the "Year").

BUSINESS REVIEW

The Group and the management team faced a number of challenges in the year of 2016 in our endeavours to drive value for the shareholders of the Company (the "Shareholders"). Those challenges were largely posed by economic issues external to the Company, such as the weakened domestic demand in China due to the economic growth slowdown in the Chinese economy and the intense competition in export. Nevertheless, the management team was dedicated to cope with those challenges as the Group successfully expanded its overseas market share following the Group's efforts to establish its brand name in the overseas market. Revenue of the Group decreased by approximately 6.7% from approximately RMB81,224,000 for the year ended 31 December 2015 to approximately RMB75,757,000 for the Year, owing to the sluggish growth rate of the Chinese economy and the keen competitive environment in particularly in South East Asia. Gross profit of the Group decreased by approximately 21.9% from approximately RMB20,466,000 for the year ended 31 December 2015 to approximately RMB15,983,000 for the Year, mainly due to the decrease in the Group's revenue. Gross profit margin also dropped from approximately 25.2% for the year ended 31 December 2015 to approximately 21.1% for the Year, as the selling price of the products sold to the Philippines was lowered to enhance the competitiveness the Group's products in that region, the gross profit margin for orders in the European and American market segments was reduced in order to enlarge market share, along with the rising raw materials costs faced by the Group during the last quarter of 2016. The Group recorded loss for the Year of approximately RMB3,291,000 which represents a decrease of approximately 32.6% as compared with the loss of approximately RMB4,886,000 for the year ended 31 December 2015. Such decrease is mainly due to absence of listing expenses for the Year and was however partially offset by the decrease in (i) revenue and gross profit due to weaker market sentiment and higher raw material costs; and (ii) decrease in other income due to decrease in government grants and subsidies for the Year as compared with the corresponding year in 2015.

PROSPECTS

Growth opportunities are expected to be ample in 2017 as the outlook of the confectionery industry looks optimistic. According to a study of a market research firm, the global confectionery market will grow at a compound annual growth rate (CAGR) of 3.80% in the forecasted period of 2016-2020. The confectionery market in the US is projected to grow at a CAGR of 1.57% by revenue during the forecasted period of 2016-2020, while the China confectionery market is poised to enjoy a CAGR of 5.1% between 2015-2020, which will make China the second largest confectionery market by 2020 at an expected volume of 1.4 billion kilograms. Chinese population's increasing disposable income and interest in Western-style sweets contributed to the fast expansion pace of the market. The soaring raw material costs faced by the Group, however, could dampen the positive outlook, as the supply deficit of sugar (one of the Group's key raw materials) relative to demand experienced in 2016 is expected to continue in 2017.

The Directors are aware that the purchasing power of foreign consumers in 2016 had decreased owing to the global economic downturn, which, given the ongoing intensive competition from other candies manufacturers and economic slowdown in the PRC, could adversely impact the Group's turnover in the forthcoming year. Despite the challenges ahead, the Group will endeavour to bolster its position in the confectionery industry by strengthening its team, refining its management, expanding its product offerings and its production capacity, as well as attending overseas exhibitions to promote its products and develop new markets and customers. The Group will continue to pursue business opportunities in the confectionery industry, so as to generate greater value for the Shareholders.

To enhance the value for the Shareholders, the Company decided to expand its business into investment business, mainly in listed shares. To facilitate the above investment business, a company (the "Lender") wholly owned by Ms. Hong Yinzhi, an executive Director, entered into a loan agreement with a subsidiary of the Company (the "Borrower"), pursuant to which the Lender is agreed to lend HK$75,000,000 to the Borrower at an interest rate of 5% per annum for a term of 2 years.

APPRECIATION

Finally, I would like to extend, on China Candy Holdings Limited's behalf, my heartfelt gratitude to the Shareholders, members of the Board, management and staff of the Group for their continuing support to the Company.

Xu Jinpei
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Year and up to the date of this report, the Group had been principally engaged in the manufacturing of various types of candies in China which include jelly drops candies, aerated candies, hard candies and chocolate-made products.

Business Review

During the Year, the Group maintained its focus in manufacturing various candies products. Among the different candies products which the Group produces, jelly drop candies remained the product with the largest production volume, while the production volume for hard candies, being the second largest type of candies the Group produces, decreased. The Group launched a series of soft piping technique candies (軟裱花工藝糖), fudge cakes (蛋糕軟糖) and squeeze candies (擠壓糖) during the Year.

The revenue of the Group for the Year was affected by the decrease in the sales to certain major customers of the Group. The economic slowdown in the PRC for the Year and the competitive market environment faced by the Group, especially in the Philippines market had in part led to the drop in the sales to some key customers of the Group. The decrease in sales volume in the Philippines market had in turn led to a lowering of sales price in response to the drop in sales volume. On the other hand, increase in revenue in the United States had partially offset the aforementioned negative impact on the Group's revenue, as the Group was able to increase sales to new customers in the region with a series of marketing initiatives. Overseas customers continue to be the major source of the Group's revenue for the Year. Given the strategic importance of the overseas market, the Group continued to broaden its overseas customer base through attending exhibitions in Germany, Thailand and South Africa to promote its products during the Year.

Ongoing product improvement and product offerings enhancement were achieved with (i) the Group's strength in maintaining a diversified and innovative products portfolio which the Directors consider crucial in enticing existing and new customers; and (ii) the Groups' commitment to stringent quality standards and quality control and excellent workplace condition.

FINANCIAL REVIEW

Revenue

Revenue of the Group decreased by approximately 6.7% from approximately RMB81,224,000 for the year ended 31 December 2015 to approximately RMB75,757,000 for the Year. The decrease in revenue was mainly due to the drop in the sales to some of the Group's main customers. With respect to the changes in revenue by geographical regions, South East Asia experienced the largest fall in revenue among all regions as the Group faced fierce competition from other candies manufacturers in South East Asia, especially in the Philippines, which hampered the Group's sales. Revenue in the PRC was also lowered as a result of the economic slowdown in the PRC in 2016. Nonetheless, the increase in revenue in the United States had partially offset the decrease in the Group's overall revenue. Sales to new customers in the United States rose as the Group attempted to boost its market share in that region through lowering the gross margin of its products. Of the different candies products produced by the Group, hard candies recorded the largest decrease in revenue, as the sales volume of hard candies shrank the most among all candies products.

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of revenue is based on the locations of the customers.

	2016 **RMB'000**	2015 RMB'000
Revenue from external customers:		
– China	**25,673**	29,713
– South East Asia	**34,652**	40,248
– North America	**14,050**	10,182
– Europe	**482**	88
– Others	**900**	993
	75,757	81,224

Gross Profit

Gross profit of the Group decreased by approximately 21.9% from approximately RMB20,466,000 for the year ended 31 December 2015 to approximately RMB15,983,000 for the Year. The gross profit decreased as the Group's revenue decreased as illustrated above.

On the other hand, gross profit margin decreased from approximately 25.2% for the year ended 31 December 2015 to approximately 21.1% for the Year. The decrease in gross profit margin could be ascribed to the lowered selling price of the products that were mainly sold to the Philippines as a result of the intense competition from the Group's competitors in that region, the reduction of gross profit margin for orders in the European and American market segments in order to capture new market share and entice new customers, as well as the rising raw materials costs faced by the Group during the last quarter of 2016.

Distribution and Selling Expenses

Distribution and selling expenses increased by approximately 53.7% from approximately RMB1,793,000 for the year ended 31 December 2015 to approximately RMB2,755,000 for the Year. The increase in the distribution and selling expenses was mainly a result of the higher advertising expenses, incurred by the Group in an effort to further establish its presence in overseas markets through deploying a series of marketing strategies and campaigns.

Administrative Expenses

Administrative expenses of the Group increased by approximately 38.2% from approximately RMB9,801,000 for the year ended 31 December 2015 to approximately RMB13,542,000 for the Year. Such increase was mainly caused by net effect of i) the increase in Directors' emoluments, legal and professional fee and development cost; and ii) decrease in social insurance costs for the Year.

Listing Expenses

During the year ended 31 December 2015, the Group recognized non-recurring listing expenses of approximately RMB10,756,000 as the expenses in connection with the Company's preparation of the listing (the "Listing") of the shares of the Company (the "Shares") on GEM of the Stock Exchange on 11 November 2015 (the "Listing Date"). No such expenses were incurred for the Year.

Finance Costs

Finance costs of the Group decreased by approximately 23.7% from approximately RMB4,186,000 for the year ended 31 December 2015 to approximately RMB3,196,000 for the Year. The decrease in finance costs was primarily due to the decrease in the effective interest rate of the Group's interest bearing borrowings.

Loss for the Year

The Group recorded a loss for the Year of approximately RMB3,291,000, representing an decrease of approximately 32.6% as compared with the loss of approximately RMB4,886,000 for the year ended 31 December 2015. The absence of the listing expenses for the Year in contrast with the listing expenses of approximately RMB10,756,000 recorded during the year ended 31 December 2015 had contributed to the decrease in loss for the Year. Such decrease in loss was however partially offset by the decrease in (i) revenue and gross profit due to weaker market sentiment and higher raw material costs; and (ii) other income due to decrease in government grants and subsidies for the Year as compared with the corresponding year in 2015.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

There has been no change in the capital structure of the Group since the Listing Date. The capital of the Group only comprises of ordinary shares.

Historically, the Group has funded the liquidity and capital requirements primarily through operating cash flows and bank borrowings. The Group's bank borrowings is primarily for financing. As at 31 December 2016, the Group had bank borrowings of approximately RMB55,000,000 (31 December 2015: approximately RMB55,000,000).

As at 31 December 2016, approximately RMB55,000,000 (31 December 2015: approximately RMB50,000,000) of the bank borrowings of the Group were secured and nil (31 December 2015: approximately RMB5,000,000) were unsecured. All bank loans were repayable within one year from the end of the reporting period based on the scheduled repayment dates set out in the loan agreements. The bank borrowings rate carried interests ranging from approximately 4.57% per annum to 5.13% per annum as at 31 December 2016 (31 December 2015: approximately 5.66% per annum to 8.25% per annum). The weighted average effective interest rate on borrowings is approximately 5.60% per annum as at 31 December 2016 (31 December 2015: approximately 6.88% per annum).

As at 31 December 2016, the Group had approximately RMB44,889,000 in bank balance and cash (31 December 2015: approximately RMB43,267,000). The Directors believe that the Group is in a healthy financial position to expand its core business and to achieve its business objectives.

CAPITAL COMMITMENTS

The Group had no capital commitments not provided for in respect of property, plant and equipment as at 31 December 2016 (31 December 2015: approximately RMB1,260,000).

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this report, the Group did not have other plans for material investments and capital assets.

GEARING RATIO

As at 31 December 2016, the Group's gearing ratio was approximately 68.5% (31 December 2015: approximately 64.6%), based on total debt of approximately RMB57,257,000 and total equity of approximately RMB83,621,000. The increase is mainly attributable to the increase of amounts due to related parties during the Year and the decrease in total equity as at 31 December 2016.

Note: Gearing ratio is calculated as the total debt divided by total equity. Total debt includes bank borrowing and amounts due to related parties.

CHARGE OVER ASSETS OF THE GROUP

As at 31 December 2016, the Group had pledged bank deposits, prepaid lease payment and charge over the Group's buildings of nil (31 December 2015: approximately RMB1,200,000), approximately RMB8,781,000 (31 December 2015: approximately RMB8,985,000) and approximately RMB51,569,000 (31 December 2015: approximately RMB52,903,000) respectively. These pledged bank deposits, prepaid lease payment and charged buildings were secured to bills payable or general banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no significant investments held as at 31 December 2016, nor other material acquisitions and disposals of subsidiaries and associated companies during the Year.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no material contingent liabilities (2015: nil).

FOREIGN EXCHANGE EXPOSURE

The Group settles the cost of production in Renminbi ("RMB") and most of the sales of the Group are settled in United States dollars ("US$") and others are denominated in HK$. Therefore, the Group is exposed to foreign exchange risks of both US$ and HK$. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group had a total of approximately 140 employees. The Group's staff cost for the Year amounted to approximately RMB9,632,000 (2015: approximately RMB8,829,000). The Group's remuneration policies are in line with the prevailing market practice and are determined on the basis of performance, qualification and experience of individual employee. The Group recognises the importance of a good relationship with its employees. The remuneration payable to its employees includes salaries and allowance.

In the PRC, the Group's employees have participated in various security insurance including social insurance prescribed by the Social Insurance Law of PRC (中華人民共和國社會保險法) and housing provident fund prescribed by the Regulations on Management of Housing Provident Fund (住房公積金管理條例).

SUBSEQUENT EVENT

On 25 January 2017, a company (the "Lender") wholly owned by Ms. Hong, entered into a loan agreement with a subsidiary of the Company (the "Borrower"), pursuant to which the Lender is agreed to lend HK$75,000,000 to the Borrower at an interest rate of 5% per annum for a term of 2 year with Lender's overriding right of withdrawal and immediate repayment on demand. The above financial assistance constituted a connected transaction which is fully exempt under the GEM Listing Rules.

On 22 February 2017 (after trading hours), the Company entered into a placing agreement with Head & Shoulders Securities Limited (the "Placing Agent"). Pursuant to the placing agreement, the Company has conditionally agreed to allot and issue, and the Placing Agent has conditionally agreed to place, on a best effort basis, up to 268,000,000 new Shares to not less than six individual, institutional or other professional investors (the "Placees") at the placing price of HK$0.148 per placing Share (the "Placing"). The Placees and their respective ultimate beneficial owner(s) (where appropriate) shall be independent third parties as defined in the GEM Listing Rules. The placing Shares will be issued under the general mandate granted to the Directors on 4 May 2016. Further details of the Placing were disclosed in the announcement dated 22 February 2017 issued by the Company. For the completion of the Placing, the Company will publish further announcement in due course.

Saved as disclosed in this report, there was no important event affecting the Group since the end of the Year and up to the date of this report.

RETIREMENT BENEFITS PLANS

Particulars of retirement benefits plans of the Group as at 31 December 2016 are set out in note 26 to the consolidated financial statements.

Pursuant to the applicable PRC laws and regulations, the Group participates to contribute to various security insurance including social insurance and housing provident fund.

No forfeited contributions are available to reduce the contribution payable by the Group in future years.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the Company's prospectus dated 30 October 2015 (the "Prospectus") with actual business progress up to 31 December 2016.

Business plan as set out in the Prospectus	Progress up to 31 December 2016
Expand and enhance the product offerings through continuous product development efforts	
– Develop new products offerings and adjust the product mix in response to changing consumer tastes and preferences to achieve a more comprehensive product portfolio and improve the commercial appeal – Improve formulas for the products such as using healthy or other new ingredients in the candies product	The Group has developed new products continuously and strengthened the product portfolio. The Group has also developed a new series of sugar doll, innovative products combining marshmallow with gummy candy, decorating soft candy, fudge cakes and squeeze candies. The Group has collaborated with customers to develop packaging style and product flavors which would be popular in the market.
Continue to strengthen the brand recognition and to develop new brands and series in order to enhance the market position and to strengthen intellectual property protection	
– Improve corporate image with production of new corporate brochures, products and sales information and other advertisement materials, new designs of packaging and placing of advertisements in building the "Holeywood" brand to increase customer's awareness and loyalty – Register trademarks and patents for the new product formulae and new corporate trademarks	The Group has improved the Company's website and strengthened promotion on the Internet and traditional media. The Group has actively registered 12 patents and utility model patents.
Expand production capacity	
– Construct new factory premises for a new production line for expansion of production capacity of the gelatin candies – Acquire new and upgrade production facility or machinery for the existing production lines to achieve better economies of scale	The Group is in the course of building new factory premises. The Group has purchased new machinery and upgraded the existing machinery. The Group has also improved the technological process and actively carried out assembly line transformation to increase production capacity and reduce power consumption, as well as reserved materials to fulfill the expansion in production capacity.
Attract and retain quality personnel	
– Provide structured training that is designed to provide a clear career advancement track to motivate and incentivize the staff	The Group has enhanced the cooperation with various professional institutions and personnel. The Group has also employed professionals in every aspect to strengthen the team and provided training to the professionals to improve the management and efficiency. In addition, the Group has improved the employees' benefit to retain talents.
Uplift marketing effort, expand distribution network and explore new business opportunities	
– Increase points of sales in terms of number of self-operating stores and wholesale distributors and strengthen the co-operation with trading companies – Strengthen marketing efforts such as to place printed and online advertisements, promote new products via different channels to explore new business opportunities	The Group has visited the overseas customers actively to explore new business opportunity and started using WeChat for Internet promotion and sales. The Group has cooperation with the traditional media to improve the Company's reputation and the brand popularity with the help of marketing events. The Group has also strengthened the development of international and domestic markets by joining the China Import and Export Fair, Thai, South African, French, German, Fujianese and Taiwanese food expos to promote new products and develop new markets and customers.

PRINCIPAL RISKS AND UNCERTAINTIES

Foreign exchange risk

Foreign exchange rate risk refers to the risk that movement in foreign currency exchange rates will affect the Group's financial results and cash flows. As a result of the Group's business expansion to direct oversea sales, the Group may incur a significant amount of sales, assets and liabilities denominated in a currency other than RMB. In this case, the Group would be exposed to risks related to the exchange rate and the currency in which the Group's assets and liabilities is denominated. A depreciation of the RMB would require the Group to use more RMB funds to service the same amount of foreign currency liabilities, or a depreciation of foreign currency against RMB would result in receipts from receivables substantially less than the contractual amounts in terms of RMB at the settlement date. In addition, any appreciation of RMB against Hong Kong Dollars will adversely affect the amount of proceeds the Group receives in terms of RMB. On the other hand, a depreciation of RMB would adversely affect the value of any dividends the Group pays to the Shareholders. The Group neither has a formal foreign currency hedging policy nor engage in hedging activities designed or intended to manage such exchange rate risk during the Year. Since RMB is not freely convertible, the Group's ability to reduce foreign exchange rate risk is limited.

Credit risk

The Group is exposed to credit risk primarily arising from trade receivables and bank deposits. Trade receivables are substantially from overseas customers with good collection track records with the Group. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history to mitigate credit risks. Impairment losses on trade receivables of approximately RMB284,000 (2015: approximately RMB804,000) were recognized during the Year. The remaining amounts are still considered recoverable because there were subsequent settlements or no historical default of payments by the respective customers.

The Group is also subject to concentration of credit risk arising from its trade receivables as approximately 94% (2015: approximately 77%) of these receivables are due from the Group's largest five customers as at the end of the reporting period.

Bank deposits are mainly deposits with banks with good credit ratings assigned by international credit-rating agencies or with good reputation. For bank deposits, the Group adopts the policy of dealing only with high credit quality counterparties.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as of the end of each reporting period in relation to each class of recognized financial assets was the carrying amounts of those assets as stated on the Group's consolidated statements of financial position.

Liquidity risk

The Group's financial liabilities are all due within the next 12 months from the end of the Year. The Group manages the liquidity risk by maintaining sufficient cash and banking facilities to enable the Group to meet the Group's normal operating and capital commitments.

Interest rate risk

The Group's interest rate risk relates primarily to the Group's bank deposits and bank borrowings. The Group currently has not entered into interest rate swaps to hedge against the Group's exposure to changes in fair values of the Group's borrowings. It is the Group's policy to maintain an appropriate level between the Group's borrowings so as to balance the fair value and cash flow interest rate risk. In addition, to the extent that the Group may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debts. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of the Group's debt obligations. The Group currently does not use any derivative instruments to manage the Group's interest rate risk. To the extent the Group decides to do so in the future, there can be no assurance that any future hedging activities will protect the Group from fluctuations in interest rates.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has implemented environmental protection measures, including procedures and programs related to wastewater discharge management, noise control, resources and energy use control, environmental protection enhancement and sustainable development, internal environmental examination and evaluation, environmental emergency response and impact control. To ensure compliance with applicable regulations, the Group has dedicated staff responsible for supervising and monitoring compliance with statutory regulations and the internal standards relating to environmental protection. Ms. Hong Yinzhi, the executive Director, has the overall responsibility for environmental protection matters within the Group. The Group's operations were in compliance in all material respects with currently applicable national and local environmental protection laws and regulations in the PRC during the Year.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As disclosed in the Prospectus, Fujian Holeywood Food Industrial Co., Ltd. (福建好來屋食品工業有限公司) (an indirect wholly-owned subsidiary of the Company) has failed to make housing provident fund payment for 122 employees with agricultural family register (農業戶籍) and fully pay social insurance premiums for some of the employees for the period from 1 January 2013 to May 2015. The Group has paid all social insurance and housing provident fund for the employees since June 2015.

As far as the Board and the management are aware, save as disclosed above, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with suppliers and customers. During the Year, there were no material and significant dispute between the Group and its suppliers and/or customers.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the Listing were approximately HK$36,000,000, which was based on the final placing price of HK$0.2 per Share after deducting the underwriting commission and actual expenses related to the Listing. Accordingly, the Group adjusted the use of proceeds in the same manner and proportion as shown in the Prospectus. Up to 31 December 2016, the net proceeds from the Listing had been applied as follows:

	Planned use of proceeds up to 31 December 2016 HK$'000	Actual use of proceeds up to 31 December 2016 HK$'000
Expand and enhance product offerings through continuous product development efforts	2,533	529
Continue to strengthen brand recognition and to develop new brands and series in order to enhance market position and to strengthen intellectual property protection	2,720	2,720
Expand production capacity	12,671	9,821
Attract and retain quality personnel	1,408	1,408
Uplift marketing effort, expand distribution network and explore new business opportunities	2,253	2,068
Repayment of existing bank borrowings	7,743	7,743
General working capital	1,455	1,455
Total	30,783	25,744

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business, the actual situation and the industry.

The Directors will constantly evaluate the Group's business objective and will change or modify plans against the changing market condition to ascertain the business growth of the Group.

OUTLOOK

The Shares were listed on GEM on 11 November 2015. The Directors are confident that with the enhanced corporate image of the Group by virtue of the Listing and the net proceeds received by the Group, the Group is well-positioned to further expand its presence in the confectionery industry and the Group's business operations in order to drive Shareholders' value.

Growth opportunities are expected to be ample in 2017 as the outlook of the confectionery industry looks optimistic. According to a study of a market research firm, the global confectionery market will grow at a compound annual growth rate (CAGR) of 3.80% in the forecasted period of 2016-2020. The confectionery market in the US is projected to grow at a CAGR of 1.57% by revenue during the forecasted period of 2016-2020, while the China confectionery market is poised to enjoy a CAGR of 5.1% between 2015-2020, which will make China the second largest confectionery market by 2020 at an expected volume of 1.4 billion kilograms. Chinese population's increasing disposable income and interest in Western-style sweets contributed to the fast expansion pace of the market. The soaring raw material costs faced by the Group, however, could dampen the positive outlook, as the supply deficit of sugar (one of the Group's key raw materials) relative to demand experienced in 2016 is expected to continue in 2017.

The Directors are aware that the purchasing power of foreign consumers in 2016 had decreased owing to the global economic downturn, which in turn contributed to the decrease in the demand of candies as well as the export of candies manufactures in the PRC in 2016. Given the ongoing intensive competition from other candies manufacturers and economic slowdown in the PRC, the Group's turnover could be adversely impacted in the forthcoming period. Despite the challenges ahead, the Group will endeavour to bolster its position in the confectionery industry by strengthening its team, refining its management, expanding its product offerings and its production capacity, as well as attending overseas exhibitions to promote its products and develop new markets and customers. The Group will continue to pursue business opportunities in the confectionery industry, so as to generate greater value for the Shareholders.

To enhance the value for the Shareholders, the Company decided to expand its business into investment business, mainly in listed shares. To facilitate the above investment business, a company (the "Lender") wholly owned by Ms. Hong Yinzhi, an executive Director, entered into a loan agreement with a subsidiary of the Company (the "Borrower"), pursuant to which the Lender is agreed to lend HK$75,000,000 to the Borrower at an interest rate of 5% per annum for a term of 2 years.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Xu Jinpei (許金培) ("Mr. Xu"), aged 46, is the chairman of the Company, an executive Director and the chairman of the nomination committee of the Company. He is also a director of Fujian Holeywood Food Industrial Co., Ltd.(福建好來屋食品工業有限公司)("Holeywood Food") (an indirect wholly-owned subsidiary of the Company) (which was listed on Tianjin Equity Exchange ("TJS") on 11 June 2012 and subsequently delisted from TJS on 10 January 2014) and Jinjiang Holeywood Trading Co., Ltd.*(晉江好來屋商貿有限公司) (formerly known as Jinjiang Holeywood Enterprise Consulting Co., Ltd.*(晉江好來屋企業諮詢有限公司)) (an indirect wholly-owned subsidiary of the Company). Mr. Xu was first appointed as a Director on 14 March 2014, and was re-designated as the executive Director on 8 January 2015. Mr. Xu is responsible for the overall management and formulation of the business strategy of the Group.

Mr. Xu has more than 20 years of experience in food industry. From January 1996 to July 2000, Mr. Xu was a general manager in Fujian Xu Fu Ji (Brothers) Food Co., Ltd.*(福建許福記(兄弟)食品有限公司), responsible for the daily operation and management of the company. From the establishment of Holeywood Food in April 2000 to May 2012, Mr. Xu had been the general manager of Holeywood Food, responsible for the daily operation and management. From May 2012 to March 2014, Mr. Xu had been the Chairman of Holeywood Food.

Mr. Xu completed an executive development program organized by The School of Management, Xiamen University in July 2009. He serves as a member of the second standing committee of Jinjiang Charity Federation* (晉江市慈善總會第二屆理事會常務理事) and vice president of the first standing committee of the Chamber of Commerce in Lingyuan Street, Jinjiang City* (晉江市靈源街道商會第一屆理事會副會長).

Mr. Xu had not been a director of any listed companies over the past three years.

Ms. Hong Yinzhi (洪蔭治) ("Ms. Hong"), aged 44, is the founder of the Group, chief executive officer, an executive Director and a member of each of the remuneration committee and compliance committee of the Company. She was appointed as an executive Director on 8 January 2015. She has been a director of Holeywood Food since its establishment in 2000 (which was listed on TJS on 11 June 2012 and subsequently delisted from TJS on 10 January 2014), a director of Jinjiang Lu Lu Shun Imports and Exports Trading Co., Ltd.* (晉江路路順進出口貿易有限公司)(an indirect wholly-owned subsidiary of the Company), and a director and general manager of Jinjiang Holeywood Animation Design Co., Ltd.*(晉江好來屋動漫設計有限公司) (an indirect wholly-owned subsidiary of the Company). Ms. Hong is responsible for the daily management and operation of the Group.

Ms. Hong has more than 20 years of experience in food industry. Prior to joining the Group, she was the deputy general manager in Fujian Xu Fu Ji (Brothers) Food Co., Ltd.* (福建許福記(兄弟)食品有限公司) from January 1996 to July 2000, responsible for the daily operation and management of the company. Since the establishment of Holeywood Food in 2000, Ms. Hong has been responsible for overseeing the daily management, operation and production of Holeywood Food.

Ms. Hong graduated from the open college in Central Communist Party School*(中共中央黨校函授學院)majoring in public management in December 2007. She completed an executive development program organized by The School of Management, Xiamen University in December 2009. Ms. Hong also completed a CEO program organized by The Market Economy Academy, Peking University in September 2010. She was appointed as a member of the Fourteenth National People's Congress of Quanzhou City(泉州市第十四屆人大代表)and a member of the Fifteenth National People's Congress of Quanzhou City (泉州市第十五屆人大代表) in January 2007 and January 2012, respectively, by the Standing Committee of the National People's Congress of Quanzhou City. She was elected as the vice president and the vice secretary general of the first standing committee of the Chamber of Commerce in Jinjiang economic development zone*(晉江經濟開發區商會首屆理事會副會長、副秘書長) in February 2013. She also received an award named Outstanding Female Entrepreneurs in Jinjiang City (晉江市優秀女企業家) granted by Jinjiang Women's Federation*(晉江市婦女聯合會), Jinjiang Development and Reform Bureau*(晉江市發展和改革局)and Jinjiang Economic and Trade Bureau*(晉江市經濟貿易局)in June 2013. She is also qualified as an intermediate level economist(中級經濟師).

Ms. Hong had not been a director of any listed companies over the past three years.

Ms. Li Yuna（李宇娜）("Ms. Li"), aged 30, was appointed as an executive Director on 30 December 2016. Ms. Li graduated from the Chinese University of Hong Kong in 2011 with a bachelor degree in science (majoring in Quantitative Finance). Ms. Li is a Chartered Financial Analyst and has more than five years' experience in investment banks and the financial field. Prior to joining us, she had worked in various renowned international financial institutions including Goldman Sachs (Asia) L.L.C, True Partner Holding Limited and Nomura International (Hong Kong) Limited.

Ms. Li had not been a director of any listed companies over the past three years.

Ms. Yvonne Hung（洪綺婉）("Ms. Hung"), aged 47, was appointed as an executive Director on 2 February 2017. Ms. Hung graduated from the Coquitlam College, Canada with a Business Administration diploma in 1997 and from Blanch Macdonald Institution, Canada with a Fashion and Merchandising Marketing diploma in 1999. Ms. Hung has more than 17 years' experience in fashion design and marketing field. Ms. Hung has been an executive director and chief executive officer of GET Holdings Limited (Stock Code: 8100), the shares which are listed on GEM.

Save as disclosed above, Ms. Hung had not been a director of other listed companies over the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ong King Keung (王競強) ("Mr. Ong"), aged 41, was appointed as an independent non-executive Director on 29 February 2016. He is the chairman of the audit committee and a member of each of the remuneration committee and the nomination committee of the Company. He holds a bachelor degree in accountancy from The Hong Kong Polytechnic University and a master degree in corporate finance from the City University of Hong Kong. He is a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has over 15 years of experience in auditing and accounting industry.

Mr. Ong is an independent non-executive director of China Water Affairs Group Limited (stock code: 855) and Tech Pro Technology Development Limited (stock code: 3823), which are both listed on the main board of the Stock Exchange. He is also independent non-executive director of Bingo Group Holdings Limited (stock code: 8220) and Sunrise (China) Technology Group Limited (stock code: 8226), which are both listed on the GEM of the Stock Exchange. Mr. Ong had been an independent non-executive director of Deson Construction International Holdings Limited (stock code: 8268), which is the company listed on the GEM of the Stock Exchange, since December 2014 and has been subsequently re-designated as a non-executive director since December 2015.

Mr. Ong was an independent non-executive director of China Environmental Energy Investment Limited (stock code: 986), which is a company listed on the Main Board of the Stock Exchange and resigned in August 2014.

Save as disclosed above, Mr. Ong had not been a director of any listed companies over the past three years.

Mr. Chiu Sai Chuen Nicholas（趙世存）("Mr. Chiu"), aged 72, was appointed as an independent non-executive Director on 26 October 2015. He is also a member of the audit committee and the nomination committee of the Company.

Mr. Chiu was elected as a member of the Institution of Mechanical Engineers in August 1990. He then joined South Star Construction Company Limited as the managing director from August 1991 till August 2001. Mr. Chiu had been a member of the Standing Commission on Civil Service Salaries and Conditions of Service from July 1989 to June 1991. He served as the Chairman of the Pay Trend Survey Committee of the Hong Kong Government from 1994 to July 2000. Mr. Chiu has been a director of Christian Family Service Centre since February 1988 and has been the chairman of the board of directors of Christian Family Service Centre. Mr. Chiu had been an independent non-executive director of Ngai Shun Holdings Limited (Stock Code: 1246) which is listed on the main board of the Stock Exchange from September 2013 to July 2015. Mr. Chiu also acted as an independent non-executive director of Vision Fame International Holding Limited (Stock Code: 1315) which is listed on the main board of the Stock Exchange from May 2013 to September 2015.

Mr. Chiu obtained a bachelor's degree of science in engineering and the certificate in Industrial Engineering from the University of Hong Kong in November 1969 and September 1971, respectively. He was admitted as a fellow of the Hong Kong Institution of Engineers in February 1991 and a registered professional engineer of the Hong Kong Engineers Registration Board from February 1999 to January 2000.

Save as disclosed above, Mr. Chiu had not been a director of any listed companies over the past three years.

Mr. Chu Wai Wa Fangus(朱偉華)("Mr. Chu"), aged 49, was appointed as an independent non-executive Director on 26 October 2015. He is also the chairman of the remuneration committee and a member of the audit committee of the Company.

Mr. Chu joined Excellent Management Limited in August 1997, an integrated solutions and software company specializing in information technologies, project management in travel industry and is the director of the company, responsible for finance and accounting services. Mr. Chu had been an independent non-executive director, a member of the audit committee and the remuneration committee of Century Sunshine Group Holdings Limited (Stock Code: 509) (formerly known as Century Sunshine Ecological Technology Holdings Ltd.) from 9 July 2008 to 1 July 2010, a company listed on the main board of the Stock Exchange. Mr. Chu has been an independent non-executive director of Clear Lift Holdings Limited (Stock Code: 1341) since 10 December 2015, the shares of which are listed on the main board of the Stock Exchange.

Mr. Chu obtained a bachelor's degree with first class honours in accountancy from The City University of Hong Kong (formerly known as the City Polytechnic of Hong Kong) in December 1994, and received a master of science degree in global business from The Chinese University of Hong Kong in October 2005. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and an associate of the Association of Chartered Certified Accountants.

Saved as disclosed above, Mr. Chu had not been a director of any listed companies over the past three years.

SENIOR MANAGEMENT

Mr. Wang Zhihong(王志洪)("Mr. Wang"), aged 30, is the chief financial controller and a member of the compliance committee of the Company. He is responsible for the financial and accounting management. He joined Holeywood Food as an accountant from November 2007 until he left the Group to join Guangdong Dali Food Co., Ltd.*(廣東達利食品有限公司) as an accounting manager in August 2012. Mr. Wang rejoined the Group as the chief financial controller in May 2013.

Mr. Wang obtained an associate degree in finance from Liming Vocational University*(黎明職業大學) in the PRC in June 2007. He obtained a certificate of accounting professional in the PRC in March 2009.

Mr. Wang has not been a director of any listed companies over the past three years.

Mr. Zhou Liandong(周戀東)("Mr. Zhou"), aged 40, is the head of the research and development department. He is responsible for the product research and development. Mr. Zhou joined Holeywood Food as the head of research and development department in November 2008. He had been the director of research and development department of Delica Food (Shenzhen) Co., Ltd.(迪麗嘉食品(深圳)有限公司)from April 1999 to 2007. Prior to joining the Group in 2008, he was in charge of the design department in Shenzhen Die Shen Trade Co., Ltd.*(深圳疊申貿易有限公司).

Mr. Zhou obtained an associate degree in arts and crafts(工藝美術) from Hubei University of Technology(湖北工業大學)(formerly known as Hubei Polytechnic University(湖北工學院) in the PRC in June 1999.

Mr. Zhou had not been a director of any listed companies over the past three years.

Mr. Lei Weichang（雷位昌）("Mr. Lei"), aged 43, is the head of the quality control department. He is responsible for the quality control. He joined Holeywood Food as chief quality officer in March 2013. From October 1998 to April 2001, he had been a procurement manager in Shenzhen Yuan Guang Toy Co., Ltd.*（深圳元光玩具廠）. From June 2001 to April 2007, he had been a general manager in shipping department of Quanzhou Yongda Foodstuff Co., Ltd.（泉州永大食品有限公司）, responsible for the customs inspection. From September 2009 to February 2013, he had been a deputy manager of Quanzhou Shengyuan Food Co., Ltd.*（泉州盛源食品有限公司）.

Mr. Lei obtained an associate degree in Chinese from Sanming University（三明學院）(formerly known as Sanming Teachers' College*（三明師範高等專科學校）) in the PRC in July 1995. Mr. Lei completed a training regarding the food safety and management organized by China Certification & Inspection Group Fujian Co., Ltd.（中國檢驗認證集團福建有限公司）in August 2010. He also passed the test for the food safety management personnel in the export food production enterprise（出口食品生產企業食品安全管理人員能力考試）organized by Fujian Provincial Entry-exit Inspection & Quarantine Association（福建省出入境檢驗檢疫協會）in September 2010.

Mr. Lei had not been a director of any listed companies over the past three years.

Ms. Yu Yanying（余燕英）("Ms. Yu"), aged 42, is the head of the production and operations department and the purchasing manager of the Group. She is responsible for overseeing the production and purchase of materials. Ms. Yu joined Holeywood Food in October 2009 and was promoted to the manager of the production and operations department and the purchasing manager in October 2010. Ms. Yu was appointed as the legal representative of the labour union of Holeywood Food in 2012. Ms. Yu has also served various roles at Quanzhou Ligao Food Co., Ltd*（泉州麗高食品有限公司）including the workshop supervisor from 2000 to 2004 (which had been in charge of the manufacture and packaging of products), and the factory manager from 2005 to 2008.

Ms. Yu graduated from Pu Tian Changtaixiang Middle School*（莆田市常太鄉中學）in the PRC in 1992. She has completed various management and leadership training programs organized by various corporations and universities including Shandong Hai'er Group*（山東海爾集團）and Tsinghua University in the PRC in May 2008, Peking University in the PRC from August 2010 to November 2011 and the School of Management of Xiamen University in the PRC in November 2013 and April 2014 respectively. Ms. Yu received the award named Outstanding Worker of Jinjiang Food Industry（晉江市食品行業先進工作者）granted by Jinjiang Economic and Trade Bureau*（晉江市經濟貿易局）and Jinjiang Food Industry Association*（晉江市食品行業協會）for the years of 2012 and 2013 and Excellent and Loyal Employee（愛企業優秀員工）granted by the Management Committee of Jinjiang Economic Development Zone（晉江經濟開發區管委會）in June 2013.

Ms. Yu had not been a director of any listed companies over the past three years.

COMPANY SECRETARY

Ms. So Hau Kit（蘇巧潔）, aged 39, was appointed as the company secretary of the Company on 3 July 2015. Ms. So is a director of Wonder World Corporate Services Limited with over 10 years of experience in company secretarial services and commercial solutions. Ms. So is an associate member of The Hong Kong Institute of Chartered Secretaries since October 2011 and also an associate member of The Institute of Chartered Secretaries and Administrators since October 2011. She obtained a Master of Corporate Governance in June 2011 and a Bachelor of Business Administration in December 2008 from the Open University of Hong Kong. Ms. So is also the company secretary of each of King Force Security Holdings Limited (Stock Code: 8315) and LEAP Holdings Group Limited (Stock Code: 1499).

* English names are translated for identification purpose only.

DIRECTORS' REPORT

The Directors present to the Shareholders this report and the audited consolidated financial statements of the Company and its subsidiaries for the Year.

PRINCIPAL ACTIVITIES

The principal business activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiary are set out in notes 1 and 32 to the consolidated financial statement in this report. There were no significant changes in the nature of the Group's activities during the Year.

RESULTS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 44 of this report.

BUSINESS REVIEW

Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the section headed "Management Discussion and Analysis" on pages 6 to 14 of this report. These discussions form part of this directors' report.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the Year (2015: nil).

There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting ("AGM") of the Company will be held on 28 April 2017 (Friday). For the purpose of determining entitlement to attend the forthcoming AGM, the register of members of the Company will be closed from 25 April 2017 (Tuesday) to 28 April 2017 (Friday), both day inclusive, during which period no transfer of Shares will be registered. The record date will be 28 April 2017 (Friday). In order to qualify for attending the forthcoming AGM, all transfer of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on 24 April 2017 (Monday).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 14 to the consolidated financial statements in this report.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements in this report and the Prospectus is set out on page 82. This summary does not form part of the audited consolidated financial statements in this report.

SHARE CAPITAL

Details of the Company's paid up capital for the Year are set out in note 23 to the consolidated financial statements in this report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as set out in this section, no equity-linked agreements were entered into by the Group, or existed during the Year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year and up to the date of this report.

TRANSFER TO RESERVES

Loss attributable to equity shareholders, before dividends, of approximately RMB3,291,000 has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 46 of this report.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

Apart from the reorganization of the Group in relation to the Listing, during the Year and up to the date of this report, there was no material acquisition, disposal or investment by the Group.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 74.2% of the total sales for the Year and sales to the largest customer included therein accounted for approximately 23.6% of the total sales for the Year. Purchase from the Group's five largest suppliers accounted for approximately 56.9% of the total purchase for the Year and purchase from the Group's largest supplier included therein accounted for approximately 18.3% of the total purchase for the Year.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any material beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

During the Year and up to the date of this report, the Directors are:

Executive Directors:

Mr. Xu Jinpei *(Chairman)*
Ms. Hong Yinzhi *(Chief executive officer)*
Ms. Li Yuna *(appointed on 30 December 2016)*
Ms. Yvonne Hung *(appointed on 2 February 2017)*

Independent non-executive Directors:

Mr. Kwong Ping Man *(resigned on 29 February 2016)*
Mr. Chiu Sai Chuen Nicholas
Mr. Chu Wai Wa Fangus
Mr. Ong King Keung *(appointed on 29 February 2016)*

By virtue of article 108 of the articles of association of the Company, Mr. Xu Jinpei, Ms. Hong Yinzhi and Mr. Chiu Sai Chuen Nicholas will retire at the forthcoming AGM and, all being eligible, will offer themselves for re-election at the said meeting.

By virtue of article 112 of the articles of association of the Company, Ms. Li Yuna and Ms. Yvonne Hung will retire at the forthcoming AGM and, being eligible, will offer themselves for re-election at the said meeting.

DIRECTORS' SERVICE CONTRACT

Each of the Directors (save for Mr. Ong King Keung, Ms. Li Yuna and Ms. Yvonne Hung) has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date respectively which may only be terminated in accordance with the provisions of the service contract or by (i) the Company giving to any Director not less than three months prior notice in writing or (ii) any Director giving to the Company not less than one month's prior notice in writing.

Mr. Ong King Keung has entered into a director's service contract with the Company for a term of three years commencing on 29 February 2016 which may be terminated in accordance with the provisions of the service contract or by each party thereto giving to the other party not less than one month's prior notice in writing.

Ms. Li Yuna has entered into a director's service agreement with the Company for a term of two years commencing on 30 December 2016 subject to rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company.

Ms. Yvonne Hung has entered into a director's service agreement with the Company for a term of two years commencing on 2 February 2017 subject to rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company.

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management are disclosed in the section headed "Biographies of Directors and Senior Management" on pages 15 to 18 of this report.

DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

Details of the Directors' emoluments and the five individuals with the highest emoluments are set out in notes 10 and 11 respectively to the consolidated financial statements in this report.

INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN CONTRACTS

Save as disclosed in this report, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year. No contract of significance has been entered into during the Year between the Company or any of its subsidiaries and the controlling Shareholders or any its subsidiaries.

No contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling Shareholder or any of its subsidiaries was entered into during the Year and as at the date of this report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Each of the Directors or the controlling Shareholders and their respective close associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the Year and up to the date of this report.

DISTRIBUTION RESERVES

As at 31 December 2016, the Company's reserves available for distribution to the Shareholders represented the share premium, other reserves, foreign currency translation reserve and accumulated losses and amounted to approximately RMB55,553,000.

Details of movements in the reserves of the Company and the Group during the Year are set out in note 35 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

INTERESTS OF THE COMPLIANCE ADVISER

As confirmed by the Group's compliance adviser, TC Capital International Limited (the "Compliance Adviser"), save as the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 13 February 2015, none of the Compliance Adviser or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2016, the interest and short position of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), (i) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) as required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Long position in the shares:

Name of Director	Capacity/Nature	No. of Shares held/ interested in	Approximate percentage of interest
Mr. Xu Jinpei ("Mr. Xu")	Interest in controlled corporation	150,000,000 *(Note 1)*	11.19% *(Note 3)*
Ms. Hong Yinzhi ("Ms. Hong")	Interest held jointly with other person	150,000,000 *(Note 2)*	11.19% *(Note 3)*

Long position in the shares of associated corporations:

Name of Director	Name of associated corporation	Capacity/Nature	No. of shares held/interested in	Approximate percentage of interest
Mr. Xu	Jia Qing Developments Limited ("Jia Qing")	Beneficial owner	1 *(Note 1)*	100%
Ms. Hong	Jia Qing	Interest held jointly with other person	1 *(Note 2)*	100%

Notes:

1. Mr. Xu beneficially owns the entire issued share capital of Jia Qing which in turn owns 150,000,000 Shares. Therefore, Mr. Xu is deemed or taken to be interested in all the Shares held by Jia Qing for the purposes of the SFO. Mr. Xu is an executive Director and the sole director of Jia Qing.

2. Pursuant to a confirmation signed by Mr. Xu and Ms. Hong, Mr. Xu and Ms. Hong confirmed and declared that they jointly and beneficially owned the entire issued share capital of, amongst others, Jia Qing since its incorporation. Ms. Hong is the chief executive officer of the Company and an executive Director.

3. Upon completion of the Placing, each of Mr. Xu and Ms. Hong will be interested in approximately 9.33% of the issued share capital of the Company.

Save as disclosed above, none of the Directors and chief executive of the Company has any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rules 5.46 to 5.47 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, the following persons (other than a Directors or chief executive of the Company) had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as required to be recorded in the register required to be kept under Section 336 of the SFO:

Long positions of the Shares:

Name	**Capacity/Nature**	**No. of Shares held/ interested in**	**Approximate percentage of interest**
Jia Qing	Beneficial owner	150,000,000	11.19% *(Note 3)*
Noble Core Limited ("Noble Core")	Beneficial owner	268,200,000	20.01% *(Note 3)*
Mr. Kwok Shun Tim ("Mr. Kwok")	Interest of controlled corporation	268,200,000 *(Note 1)*	20.01% *(Note 3)*
Ms. Yip Nga Wan	Interest of spouse	268,200,000 *(Note 2)*	20.01% *(Note 3)*

Notes:

1. Mr. Kwok beneficially owns the entire issued share capital of Noble Core. Therefore, Mr. Kwok is deemed or taken to be interested in all the Shares held by Noble Core for the purpose of the SFO. Mr. Kwok is the sole director of Noble Core.

2. Ms. Yip Nga Wan is the spouse of Mr. Kwok. Accordingly, Ms. Yip Nga Wan is deemed or taken to be interested in all the Shares in which Mr. Kwok is interested for the purpose of the SFO.

3. Upon completion of the Placing, Jia Qing will be interested in approximately 9.33% of the issued share capital of the Company and each of Noble Core, Mr. Kwok and Ms. Yip Nga Wan will be interested in approximately 16.68% of the issued share capital of the Company.

Save as disclosed above, as at 31 December 2016, the Company had not been notified of any interests or short positions of substantial shareholders or other persons in the Shares and underlying Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraphs headed "Directors' and chief executives' interests and short positions in Shares, underlying Shares and debentures of the Company or any associated corporations" above, and "Share Option Scheme" below, at no time during the Year was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or the chief executive of the Company or their associates to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

CONNECTED TRANSACTIONS

During the Year, there were no connected transactions or continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the GEM Listing Rules. Details of significant related party transactions undertaken in the usual course of business are set out in note 31 to the consolidated financial statements. None of these related party transactions constitute a discloseable connected transaction as defined under the GEM Listing Rules.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Share Option Scheme”) on 26 October 2015 (the “Adoption Date”). The following is a summary of the principal terms and conditions of the Share Option Scheme.

1. Purpose

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group.

2. Participants

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, options to subscribe at a price calculated in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, including, where required under the GEM Listing Rules, the independent non-executive Directors) from time to time on the basis of the participant’s contribution or potential contribution to the development and growth of the Group.

3. Maximum Number of Shares

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of all the Shares in issue as at the Listing Date (i.e. a total of 134,000,000 Shares representing 10% of the Shares in issue as at the date of this report).

4. Maximum Entitlement of Each Participant and Connected Persons

The total number of Shares issued and to be issued upon exercise of options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option scheme of the Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

5. Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

6. Performance Target

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

7. **Price of Shares**

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided always that for the purpose of calculating the subscription price, where the Company has been listed on the Stock Exchange for less than five business days, the new issue price shall be used as the closing price for any business day falling within the period before listing.

8. **Rights are Personal to Grantee**

An option shall not be transferable or assignable and shall be personal to grantee of the option. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option (where the grantee is a company, any change of its major shareholder or any substantial change in its management will be deemed to be a sale or transfer of interest as aforesaid). Any breach of these restrictions will automatically render the option lapsed.

9. **Period of the Share Option Scheme**

The Share Option Scheme will remain in force for a period of ten years commencing on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof.

Since the adoption of the Share Option Scheme and up to the date of this report, no share options have been granted pursuant to the Share Option Scheme.

There is no option outstanding, granted, cancelled and lapsed during the Year.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group employed approximately 140 employees (which included employees through labour dispatch arrangement). The Directors and senior management receive compensation in the form of fees, salaries, allowances, benefits in kind and/or discretionary bonuses relating to the performance of the Group. When reviewing and determining the specific remuneration package for the Directors and senior management, the Company takes into consideration factors such as among other things, the economic situation, the market level of salaries paid by comparable companies, the respective responsibilities and duties of the individual and the performance of the individual and the Group. A remuneration committee is set up for reviewing the Group's emolument policy and structure for the remuneration of the Directors.

The Group's remuneration to employees includes salaries and allowances.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" on pages 28 to 35 of this report.

CHARITABLE DONATIONS

During the Year, the Group had made charitable and other donation for approximately RMB1,009,000 (2015: approximately RMB536,000).

CONFIRMATION OF INDEPENDENCE

The Company has received from the independent non-executive Directors an annual confirmation pursuant to Rule 5.09 of the GEM Listing Rules and considers that all the independent non-executive Directors are independent to the Company.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors has been in force for the Year and as at the date of this report. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors.

EVENTS AFTER THE BALANCE SHEET DATE

On 25 January 2017, a company (the "Lender") wholly owned by Ms. Hong, entered into a loan agreement with a subsidiary of the Company (the "Borrower"), pursuant to which the Lender is agreed to lend HK$75,000,000 to the Borrower at an interest rate of 5% per annum for a term of 2 years with Lender's overriding right of withdrawal and immediate repayment on demand. The above financial assistance constituted a connected transaction which is fully exempt under GEM Listing Rules.

On 22 February 2017 (after trading hours), the Company entered into a placing agreement with Head & Shoulders Securities Limited (the "Placing Agent"). Pursuant to the placing agreement, the Company has conditionally agreed to allot and issue, and the Placing Agent has conditionally agreed to place, on a best effort basis, up to 268,000,000 new Shares to not less than six individual, institutional or other professional investors (the "Placees") at the placing price of HK$0.148 per placing Share (the "Placing"). The Placees and their respective ultimate beneficial owner(s) (where appropriate) shall be independent third parties as defined in the GEM Listing Rules. The placing Shares will be issued under the general mandate granted to the Directors on 4 May 2016. Further details of the Placing were disclosed in the announcement dated 22 February 2017 issued by the Company. For the completion of the Placing, the Company will publish further announcement in due course.

Saved as disclosed in this report, there was no important events affecting the Group that have occurred since the end of the Year.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained sufficient public float during the Year and up to the date of this report as required under the GEM Listing Rules.

AUDITORS

HLB Hodgson Impey Cheng Limited has acted as auditors of the Company during the Year. The Company has not changed its external auditors since its Listing, i.e. for the year ended 31 December 2015 and 2016, and up to the date of this report.

HLB Hodgson Impey Cheng Limited will retire and being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as auditors of the Company is to be proposed at the forthcoming AGM.

By Order of the Board
Xu Jinpei
Chairman
Hong Kong, 16 March 2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Group's corporate governance practices are based on the principles and the code provisions in the Corporate Governance Code (the "Code") as set out in Appendix 15 to the GEM Listing Rules.

The Board recognises the value and importance of achieving high corporate governance standards and is committed to upholding good corporate standards and procedures for the best interest of the Company's shareholders.

During the Year, the Company has complied with all the applicable code provisions of the Code contained in Appendix 15 to the GEM Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. To ensure a balance of power and authority, the Company fully supports the division of responsibility between the chairman and the chief executive officer. The roles of the chairman and the chief executive officer are segregated and performed by Mr. Xu Jinpei and Ms. Hong Yinzhi, respectively.

APPOINTMENT, RE-ELECTION AND RETIREMENT OF THE DIRECTORS

Pursuant to Article 108 of the articles of association of the Company, at every annual general meeting of the Company one third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

DIRECTORS SERVICE CONTRACTS AND APPOINTMENT LETTERS

Each of the Directors (save for Mr. Ong King Keung, Ms. Li Yuna and Ms. Yvonne Hung) has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date which may only be terminated in accordance with the provisions of the service contract or by (i) the Company giving to any Director not less than three months' prior notice in writing or (ii) any Director giving to the Company not less than one month's prior notice in writing.

Mr. Ong King Keung has entered into a director's service contract with the Company for a term of three years commencing on 29 February 2016 which may be terminated in accordance with the provisions of the service contract or by each party thereto giving to the other party not less than one month's prior notice in writing.

Ms. Li Yuna has entered into a director's service agreement with the Company for a term of two years commencing on 30 December 2016 subject to rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company.

Ms. Yvonne Hung has entered into a director's service agreement with the Company for a term of two years commencing on 2 February 2017 subject to rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company.

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted as the code of conduct regarding securities transactions by Directors in respect of the Shares (the "Code of Conduct") the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the Code of Conduct during the Year and up to the date of this report.

BOARD OF DIRECTORS

The Board comprised four executive Directors and three independent non-executive Directors as at the date of this report, details of which are set out below:

Executive Directors:

Mr. Xu Jinpei *(Chairman)*
Ms. Hong Yinzhi *(Chief executive officer)*
Ms. Li Yuna *(appointed on 30 December 2016)*
Ms. Yvonne Hung *(appointed on 2 February 2017)*

Independent non-executive Directors:

Mr. Chiu Sai Chuen Nicholas
Mr. Chu Wai Wa Fangus
Mr. Ong King Keung *(appointed on 29 February 2016)*
Mr. Kwong Ping Man *(resigned on 29 February 2016)*

The brief biographic details of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 15 to 18 of this report.

Save as disclosed in this report, the other Board members have no financial, business, family or other material or relevant relationships with each other.

FUNCTIONS OF THE BOARD

The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the Shareholders while taking into account the interests of other stakeholders. The Group has adopted internal guidelines in setting forth matters that require the Board's approval. Apart from its statutory responsibilities, the Board approves the Group's strategic plan, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks. Daily business operations and administrative functions of the Group are delegated to the management.

The Board is also delegated with corporate governance functions under code provision D.3.1 of the Code. The Board has reviewed and discussed the corporate governance policy of the Group and is satisfied with the effectiveness of the corporate governance policy.

BOARD MEETING AND PROCEDURES

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly. In compliance with code provision A.1.3 of the Code, at least 14 days' notice has been given for a regular Board meeting to give all Directors an opportunity to attend. Notice, agenda and board papers of regular Board meetings are sent to all Directors with reasonable time and at least 3 days prior to the meetings. Directors are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at Board meetings. Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. Full minutes are prepared after the meetings and the draft minutes are sent to all Directors for their comments on the final version of which are endorsed in the subsequent Board meeting.

Each of the executive Directors (save for Ms. Li Yuna and Ms. Yvonne Hung) has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date.

Ms. Li Yuna, an executive Director, has entered into a director's service agreement with the Company for a term of two years commencing on 30 December 2016.

Ms. Yvonne Hung, an executive Director, has entered into a director's service agreement with the Company for a term of two years commencing on 2 February 2017.

Each of Mr. Chiu Sai Chuen Nicholas and Mr. Chu Wai Wa Fangus, being independent non-executive Directors, has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date.

Mr. Ong King Keung, an independent non-executive Director, has entered into a director's service contract with the Company for a term of three years commencing on 29 February 2016.

Every Director is subject to re-election on retirement by rotation in accordance with the articles of association of the Company.

Details of the attendance of the regular Board meetings, audit committee (the "Audit Committee") meeting, remuneration committee (the "Remuneration Committee") meeting, nomination committee (the "Nomination Committee") meeting, compliance committee (the "Compliance Committee") meeting and general meeting of the Company held during the Year are summarized as follows:

	Regular Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Compliance Committee Meeting	General Meeting
Number of meetings held	4	4	1	1	1	1
Mr. Xu Jinpei	4	–	–	1	–	1
Ms. Hong Yinzhi	4	–	1	–	1	1
Ms. Li Yuna	–	–	–	–	–	–
Ms. Yvonne Hung	–	–	–	–	–	–
Mr. Chiu Sai Chuen Nicholas	4	4	–	1	–	1
Mr. Chu Wai Wa Fangus	4	4	1	–	–	1
Mr. Ong King Keung	4	4	1	1	–	1

BOARD COMMITTEES

The Board has established specific committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Compliance Committee, with written terms of reference which are available for viewing on the website of the Company (except for the Compliance Committee) to assist them in efficient implementation of their functions. Specific responsibilities have been delegated to the above committees.

AUDIT COMMITTEE

The Company established the Audit Committee on 26 October 2015 with written terms of reference which are in compliance with the code provisions of the Code. The primary duties of the Audit Committee are to make recommendations to the Board on appointment or reappointment and removal of external auditors; review financial statements of the Company and judgments in respect of financial reporting; and oversee internal control procedures of the Company. As at the date of this report, the Audit Committee consists of three independent non-executive Directors, namely Mr. Ong King Keung (appointed on 29 February 2016) (chairman), Mr. Chiu Sai Chuen Nicholas and Mr. Chu Wai Wa Fangus.

During the Year, the Audit Committee had reviewed the Group's unaudited quarterly results for the three months ended 31 March 2016, the nine months ended 30 September 2016 and unaudited interim results for the six months ended 30 June 2016 as well as audited annual results for the Year and the Group's internal controls for the Year. The Group's results for the Year had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this report, and confirmed that this report complies with the GEM Listing Rules.

The Audit Committee held four meetings during the Year. Details of the attendance of the Audit Committee at the Audit Committee meetings are set out above.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 26 October 2015 with written terms of reference which are in compliance with the code provisions of the Code. The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and ensure that none of the Directors determine their own remuneration. As at the date of this report, the Remuneration Committee consists of three members, namely Mr. Chu Wai Wa Fangus (an independent non-executive Director) (chairman), Ms. Hong Yinzhi (an executive Director) and Mr. Ong King Keung (an independent non-executive Director) (appointed on 29 February 2016).

One Remuneration Committee meeting was held during the Year.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 26 October 2015 with written terms of reference which are in compliance with the code provisions of the Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board annually; identify individuals suitably qualified to become Board members; assess the independence of the independent non-executive Directors; and make recommendations to the Board on relevant matters relating to appointment or re-appointment of Directors. As at the date of this report, the Nomination Committee consists of three members, namely Mr. Xu Jinpei (an executive Director) (chairman), Mr. Chiu Sai Chuen Nicholas and Mr. Ong King Keung (an independent non-executive Director) (appointed on 29 February 2016).

One Nomination Committee meeting was held during the Year.

COMPLIANCE COMMITTEE

The Company established the Compliance Committee on 3 July 2015 with written terms of reference. The primary duties of the Compliance Committee are to establish, execute, monitor and maintain the compliance system of the Group and to conduct education and training programmes on compliance matters. The Compliance Committee will cover the Group's compliance with various applicable laws and regulations, measures adopted by the Audit Committee and provides updates on the applicable laws related to the business of the Group from time to time.

As at the date of this report, the Compliance Committee consists of five members, namely Ms. Hong Yinzhi, an executive Director and the compliance officer of the Company, Mr. Wang Zhihong, the chief financial controller of the Group, Ms. Yu Yanying, the head of the production and operations of the Group, Mr. Lei Weichang, the head of the quality control department and Ms. So Hau Kit, the company secretary. The chairman of the Compliance Committee is Ms. Hong Yinzhi.

One Compliance Committee meeting was held during the Year.

DIVERSITY OF THE BOARD

The Group has adopted policy in relation to the diversity of the members of the Board and the summary of the policy is as follows:

1) selection of Board members will be based on a range of diversity perspectives, which would include but not limited to gender, age, cultural and education background, professional experience, skills, knowledge and length of service; and

2) the Nomination Committee will monitor the implementation of the diversity policy from time to time to ensure the effectiveness of the diversity policy.

PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

In compliance with the code provision A.6.5 of the Code, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Directors had provided the relevant record to the Company during the Year.

The Company is committed in arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the GEM Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All the Directors also understand the importance of continuous professional development and are committed to participate in any suitable training to develop and refresh their knowledge and skills.

COMPANY SECRETARY

The Board had appointed Ms. So Hau Kit as the company secretary (the "Company Secretary") and an authorised representative of the Company on 3 July 2015. Ms. So is also a member of the Compliance Committee.

All Directors have access to the advice and services of the Company Secretary. The Company Secretary reports to the Chairman on board governance matters, and is responsible for ensuring that board procedures are followed and facilitating communications among Directors as well as with Shareholders and management.

The Company Secretary's biographies are set out in the section headed "Biographies of Directors and Senior Management" of this report.

SENIOR MANAGEMENT REMUNERATION

The senior management's remuneration payment of the Group in the Year falls within the following band:

	Number of individuals
HK$1,000,000 or below	4
HK$1,000,001 to HK$1,500,000	–
HK$1,500,001 to HK$2,000,000	–

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements of the Group for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period in accordance with accounting principles generally accepted in Hong Kong. The statement by auditors of the Company about their responsibilities for the financial statements is set out in the independent auditors' report contained in this report. The Directors have adopted the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

EXTERNAL AUDITORS' REMUNERATION

The Company engaged HLB Hodgson Impey Cheng Limited as its external auditors for the Year. There is no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors. During the Year, the fee paid or payable to HLB Hodgson Impey Cheng Limited in respect of its statutory audit services provided to the Group was approximately RMB935,000. Fees for non-audit services for the same period were approximately RMB260,000, consisting of services provided in review of the Group's financial results for the three months ended 31 March 2016, the nine months ended 30 September 2016 and interim results for the six months ended 30 June 2016.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for ensuring the effectiveness of the Group's risk management and internal control systems. The risk management and internal control systems are designed to meet the Group's particular needs and the risks to which they are exposed.

Procedures have been set up for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management of the Group maintains and monitors the risk management and internal control systems on an ongoing basis. The Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group and is satisfied that the Group has fully complied with the Code in respect of risk management and internal controls for the Year.

GENERAL MEETING WITH SHAREHOLDERS

One general meeting had been held during the Year and the Company's forthcoming annual general meeting will be held on 28 April 2017.

THE SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 64 of the articles of association of the Company, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

In order to keep Shareholders well informed of the business activities and direction of the Group, information about the Group has been provided to the Shareholders through financial reports and announcements. The Company has established its own corporate website (www.holeywoodfood.com) as a channel to facilitate effective communication with its Shareholders and the public. The Company will continue to enhance communications and relationships with its Shareholders and investors. A shareholders communication policy was adopted on 26 October 2015 to comply with code provision E.1.4 of the Code.

Shareholders, investors and interested parties can make enquiries directly to the Company through the following e-mail: hongyzh@holeywoodfood.com

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing. Contact details are as follows:

Address:	Room 1603, 16/F, China Building, 29 Queen's Road Central, Central, Hong Kong
Tel:	2543 0633
Fax:	2543 9996
E-mail:	hongyzh@holeywoodfood.com

Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant Board committees of the Company, where appropriate, to answer the Shareholders' questions.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to article 113 of the articles of association of the Company, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office of the Company. The period for lodgment of the notices required under the articles of association of the Company will commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There had been no significant changes in the constitutional documents of the Company during the Year.

COMPLIANCE OF THE DEED OF NON-COMPETITION BY THE CONTROLLING SHAREHOLDERS

As disclosed in the Prospectus, the then controlling Shareholders, Mr. Xu Jinpei, Ms. Hong Yinzhi and Jia Qing (the "Then Controlling Shareholders"), as covenantors, have executed the deed of non-competition (the "Deed of Non-competition") in favor of the Company. Pursuant to the Deed of Non-competition, each of the Then Controlling Shareholders has undertaken to the Company (for itself and as trustee for and on behalf of each of its subsidiaries) that, save and except that disclosed in the Prospectus, during the period that the Deed of Non-competition remains effective, he/she/it shall not, and shall procure that his/her/its associates (except any member of the Group) not to, directly or indirectly, participate or hold any rights or interests, carry on or be engaged, concerned or interested or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group or any business activity to be conducted by any member of the Group from time to time after the Listing (the "Restricted Business"), save for the holding of not more than 5% shareholding interests (individually or with his/her/its associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/her/its associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant controlling shareholder (individually or with his/her/its associates).

Each of the Then Controlling Shareholders further undertakes that if he/she/it or his/her/its associates (other than any member of the Group) is offered or becomes aware of any business opportunity that relates to the Restricted Business, (i) he/she/it shall and he/she/it shall procure that his/her/its associates to notify the Company in writing and the Group shall have a right of first refusal to take up such business opportunities; and (ii) he/she/it undertakes to provide, upon the request of the committee comprising the independent non-executive Directors, all information necessary for the enforcement of the Deed of Non-competition, and to provide an annual confirmation in relation to the compliance of the non-competition undertaking in the annual report of the Company.

The Deed of Non-competition shall terminate on the earliest of the date on which (i) in relation to Mr. Xu Jinpei and Ms. Hong Yinzhi, when each of Mr. Xu Jinpei and Ms. Hong Yinzhi together with his/her associates, whether individually or taken together, ceases to be interested in 30% (or such other amount as may from time to time be specified in the GEM Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of the Company and ceased to be a Director; or (ii) in relation to Jia Qing, when Jia Qing ceases to be interested in 30% (or such other amount as may from time to time be specified in the GEM Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of the Company; or (iii) the Shares shall cease to be listed and traded on the Stock Exchange (except for temporary suspension of trading of the Shares on the Stock Exchange due to any reason). As at 28 December 2016, each of Mr. Xu Jinpei, Ms. Hong Yinzhi and Jia Qing ceased to be the controlling Shareholder of the Company.

During the Year, (i) the Company had not received any information in writing from any of the Then Controlling Shareholders in respect of any new business opportunity which competed or might compete with the existing and future business of the Group which were offered to or came to the knowledge of the Then Controlling Shareholders or their associates (other than any member of the Group; and (ii) each of the Then Controlling Shareholders had made an annual declaration in favour of the Company that it/he/she had fully complied with its/his/her obligations under the Deed of Non-competition from 1 January 2016 to 28 December 2016. In view of the above, no review was required to be performed by and no decision was required to be made by the independent non-executive Directors on whether or not to exercise the right of first refusal under the Deed of Non-competition.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

This report is compiled with the Environmental, Social and Governance Reporting Guide as set out in Appendix 20 to the GEM Listing Rules of the Stock Exchange Hong Kong and aims to disclose to investors the contributions made by China Candy Holdings Limited (the "Group") in the aspects of environment and community activities from 1 January 2016 to 31 December 2016.

The Group understands that "sustainability" is particularly important to the long-term development of the Group, the society as well as our next generation. The Group is committed to providing quality food to cater to customers' needs. During the past year, the Group invested a lot of resources and time on environmental protection and community activities, maintained a high standard of corporate social responsibility and strictly complied with relevant laws and regulations. The Group also arranged variety of training for the staff and provided them with career development opportunities in order to further ensure our business continuity.

The Group will introduce the environmental protection and social welfare activities that the Group participated in below in the "Environmental" and "Social" sections. The Group sincerely hopes that the work can foster the "sustainability" development of the society.

ENVIRONMENTAL

In recent years, the problem of human-made pollution to the natural ecology has become increasingly serious. Since 2016, the Group has formally included environmental protection into its operational objectives and responsibilities. The Group is committed to reducing the harm done by operational activities to the natural ecology, ameliorating the Group's staff's habit of energy consumption in the Company, encouraging staff and business partners to use natural resources in a responsible manner and reduce waste in daily life. As the Group's principal business activities involve plant production and office administration, the Group's environmental protection work mainly focuses on energy-saving at office and environmental-friendly production.

Emissions

As the Group is candies manufacturer capable of producing various types of candies in China. The Group's manufacturing process produces a small amount of waste water, solid wastes and to a lesser extent gases. Such process does not cause any material damage to the environment, therefore, the Group do not have significant air emissions and discharges into water, besides the non-hazardous solid wastes generated both in its office and manufacturing plant during our operations.

There were no non-compliance cases noted in relation to environmental laws and regulations as of 31 December 2016.

Energy-saving at office

The Group requires each staff member to save energy during daily work so as to contribute to the environment.

For energy-saving at office, the following policies have been formulated:

- To reduce electricity consumption, electricity-saving light bulbs are used at offices and factories. Lights and air conditioners are turned off when they are not in use, or are set at the energy-saving mode. In the daytime, the Group makes good use of daylight. Lighting devices and light bulbs are kept clean to attain the highest lighting efficiency with the least consumption of energy; and

- In order to reduce the amount of paper used, most of the network printers are pre-set at the default setting of printing on both sides. Envelopes and loose minute jackets are re-used, and the expired paper pad's back is used for drafting or printing.

Environmentally friendly production

Since mid-2016, the Group has referred to the quality management principles adopted by many Asian enterprises and carried out relevant training for the staff so as to achieve the purposes of enhancing the overall quality of work and protecting the environment. The Group's environmental requirements include:

- Avoid excessive production; avoid storing too many components, semi-finished products and finished products, which could lead to waste;

- Minimize production wastage such that the production cost can be lowered while avoiding the waste of resources;

- Make good use of resources and optimize the usage of water in production activities; enhance environmental protection awareness and monitor the environmental protection projects through pollution indicators; and

- Implement environmental protection measures, including procedures and programs related to sewage discharge management, noise control, usage control of resources and energy, enhanced environmental protection and sustainable development, internal environmental audit and assessment, as well as environmental contingent response and impact control.

SOCIAL

I. Employment and Labour Practices

Employment and Labour Standards

The remuneration policy of the Group adjusts employees' salary level based on their nature of work, education and experience, etc. to ensure that all employees are entitled to reasonable rewards.

The Group attaches great importance to the cultivation of talents. The Group carries out annual performance appraisal for employees to review their pay level and provide employees that have potential with promotion opportunities. When the Group expands its business and there are management vacancies, internal promotion will be first considered for those who are competent.

The Group is committed to building a team which allows all employees to have equal promotion opportunities and are treated with respect. The Group strictly complies with the relevant regulations of the following anti-discrimination ordinances, namely the: Sex Discrimination Ordinance, Disability Discrimination Ordinance and Family Status Discrimination Ordinance and does not engage in any fraud or child labour. In the process of annual appraisal, the Group decides the level of salary increase and promotion opportunities based solely on the work performance, experience and skills of employees.

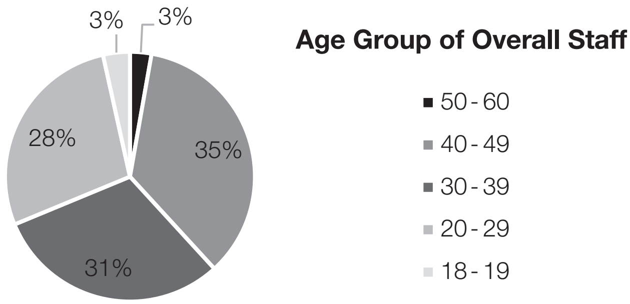
In order to recruit talents and promote staff development, the Group established the Remuneration Committee to formulate a sound remuneration policy for the Group. Its principal responsibilities are to ensure that the overall remuneration of the Group's employees is at a reasonable level and competitive among peers in the trade. The Committee is also responsible for monitoring and reviewing the management's approach of formulating employees' compensation and benefits to ensure that the approach is fair and just, and that only the performance and capabilities of employees are considered in determining their remuneration.

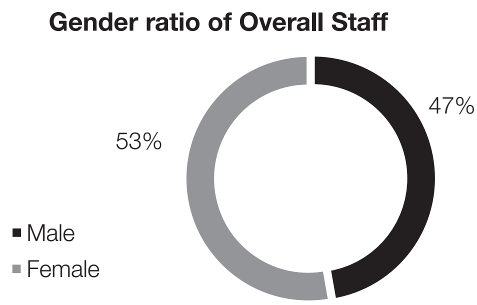
Staff are required to have good standards of professional ethics and personal qualities. There are strict requirements regarding staff's conduct in the Group's human resources policy. All staff are aware of the policy.

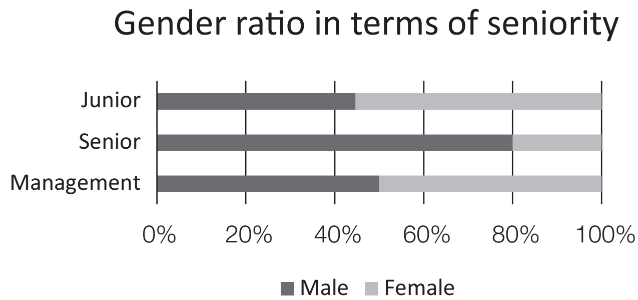
There were no non-compliance cases noted in relation to labour Standards law and regulations as of 31 December 2016.

Staff Composition

As at 31 December 2016, the Group employed a total of 144 staff members within the Group. All staff members are allocated in China.







As illustrated in the above, except for 6% of the staff within the age from 18 to 29, all staff is evenly distributed among the age groups from 30 to 60. The gender ratio, in general and for junior and management level staff, is close to an even distribution. Only at the senior level would more staff tend to be male.

Employee Health and Safety

The Group recognizes the importance of providing a safe and enjoyable working environment to staff. To maintain a safe working environment, staff are given the "6S" training, which encourages them to often clean up the working environment and identify the potential dangers in office so as to prevent work injury.

The keys to maintaining the health of our staff are to maintain adequate communication with them, fully understand and take care of their needs, and improve their working conditions as well. In view of the above, the Group established a mechanism for staff to express opinions and lodge complaints. The details of the cases and subsequent improvements would be recorded. In 2016, the Group made improvements in meals, pest infestation and the living environment of the dormitory, and successfully enhanced the quality of staff quarters. There were no non-compliance cases noted in relation to health and safety law and regulations as of 31 December 2016.

Training and Development

The Group hopes that our staff can grow together with the Group. At the beginning of 2016, the management formulated the "Company Training Program for the Year 2016", which provided departmental staff and managerial staff with monthly training and seminars on various topics. The following are the topics of the seminars and training:

- Maintenance of production equipment; essentials of safe production;
- Execution training for managerial staff; induction training for new staff;
- Training on fire safety knowledge and fire drills; and
- Technical training.

II. Operating Practices

Supply Chain Management

The Group has a just, transparent and competitive bidding system for the procurement of both goods and services. The Group also has rigorous internal control measures to ensure the impartiality of the process and the performance of all suppliers and contractors are reported and monitored. The factors that the Group takes into consideration during the selection of suppliers or contractors include: price, specification and quality of the product, service quality and product support. Responsible staff of the purchasing team, the chief financial controller and the general manager would take part in each assessment and the assessment record should be filled in.

Product Responsibility

Prior to appointing any supplier, the Group's purchasing team would conduct a field trip to obtain the supplier's valid production licence and business licence, third party test report on the material to be used, the quality evaluation of the sample and other information. Only after confirming that the relevant raw materials are harmless to the environment and human bodies would the Group use those materials for product manufacturing.

In addition, the Group values the Group's customers' comments very much. The Group listened to customers' comments to improve product quality effectively. The Group's marketing development department has a customer service hotline and complaints will be handled by marketing staff who will make a detailed record for each complaint and relevant follow-up actions.

The Group has obtained "The National Industrial Production Licence (QS)", the licence requires us to meet the quality and hygiene standards set by the PRC government, covering different stages of the production facilities, finished products and storage.

To foster food safety, ensure quality and constantly develop new products, the Group commissioned a university last year to provide technical guidance to the Group's production process such that the risks of microorganism or other pollution found in the production process can be eliminated as much as possible.

There were no non-compliance cases noted in relation to health and safety, advertising, labelling and privacy matters as of 31 December 2016.

Anti-Corruption

The Group has a well-established and effective internal control system. In terms of prevention of corruption and fraud, the Group has formulated the Compliance Manual and implemented the reporting mechanism so as to provide the staff with guidance to deal with potential fraud. Staff are encouraged to report business practices that are suspected of violating regulations and to this end, a secured and independent reporting channel is specially set up.

During the year, the management of the Group did not find any cases of bribery or fraud. Through the established code of conduct, Compliance Manual and reporting mechanism, as well as the controlled environment developed by all staff throughout the years, the Group believes that the risk of the occurrence of fraud behaviour has been minimized. The Group will continue to monitor the related risks so as to maximize the values for the shareholders and other related parties.

There were no non-compliance cases noted in relation to corruption related laws and regulations as of 31 December 2016.

Community Involvement

The Group actively participates in community activities in the hope of reciprocating the society and helping those who are in need. During the Year, the Group donated RMB1 million in total to a charity organisation situated in Jinjiang city. The charity organisation has for many years used its received donations to provide education opportunities for poor children, medical subsidies for persons with disabilities, and living allowances for poor mothers and orphans as well. Donations of RMB6,000 and RMB3,000 were also made to schools and to a charity caring about elderlies, respectively. The Group also encourages the staff to join sports activities in the community, hoping to improve their health.

Future Approach Towards Sustainable Development

Facing the future, the Group has the following prospects:

- Introduce the principles of environmentally-friendly production and operation to every production process and office operation;

- Encourage the staff to join more community activities, raise the civil awareness of all staff within the Group and offer help to those in need in the society; and

- Provide a larger variety of training and improve the all-round development of the staff and workers.

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF CHINA CANDY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of China Candy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 44 to 81, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of trade receivables Refer to note 17 to the consolidated financial statements.	
We identified the valuation of trade receivables as a key audit matter due to the use of judgement and estimates in assessing the recoverability of trade receivables. In determining the allowance for trade receivables, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables.	Our procedures in relation to valuation on trade receivables mainly included: • Obtaining an understanding of how allowance for doubtful debts is estimated by the management and testing the aging analysis of the trade receivables to the source documents; • Reviewing the aging analysis of the trade receivables throughout the year to understand the settlement patterns by the customers; and • Assessing the reasonableness of recoverability of trade receivables with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of each individual customer.

Other information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Auditors' responsibilities for the audit of the consolidated financial statements – continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Chan Ching Pang.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Chan Ching Pang
Practising Certificate Number: P05746

Hong Kong, 16 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016 RMB'000**	2015 RMB'000
Revenue	5	**75,757**	81,224
Cost of sales		**(59,774)**	(60,758)
Gross profit		**15,983**	20,466
Other income	6	**1,383**	5,883
Distribution and selling expenses		**(2,755)**	(1,793)
Administrative expenses		**(13,542)**	(9,801)
Listing expenses		**–**	(10,756)
Finance costs	7	**(3,196)**	(4,186)
Loss before tax		**(2,127)**	(187)
Income tax expense	8	**(1,164)**	(4,699)
Loss for the year	9	**(3,291)**	(4,886)
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**420**	213
Other comprehensive income for the year, net of income tax		**420**	213
Total comprehensive expense for the year attributable to owners of the Company		**(2,871)**	(4,673)
		RMB cents	RMB cents
Loss per share			
– Basic and diluted	13	**(0.25)**	(0.44)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	14	**69,775**	67,345
Prepaid lease payments	15	**8,577**	8,781
		78,352	76,126
Current assets			
Inventories	16	**3,978**	9,720
Prepaid lease payments	15	**204**	204
Trade and other receivables	17	**32,599**	39,375
Amount due from a related party	18	**49**	27
Pledged bank deposits	19	**–**	1,200
Cash and bank balances	19	**44,889**	43,267
		81,719	93,793
Total assets		**160,071**	169,919
Current liabilities			
Trade and other payables	20	**14,657**	22,108
Amounts due to related parties	18	**2,257**	845
Borrowings	21	**55,000**	55,000
Current tax liabilities		**1,441**	2,608
		73,355	80,561
Net current assets		**8,364**	13,232
Total assets less current liabilities		**86,716**	89,358
Non-current liabilities			
Deferred tax liabilities	22	**3,095**	2,866
Net assets		**83,621**	86,492
Capital and reserves			
Share capital	23	**11,007**	11,007
Reserves	24	**72,614**	75,485
Total equity		**83,621**	86,492

The consolidated financial statements on pages 44 to 81 were approved and authorized for issue by the Board of Directors on 16 March 2017 and are signed on its behalf by:

Xu Jinpei
Director

Hong Yinzhi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Attributable to owners of the Company						
	Share capital RMB'000 (note 23)	**Share premium** RMB'000	**Other reserves** RMB'000 (note 24)	**Statutory reserve** RMB'000 (note 24)	**Foreign currency translation reserve** RMB'000 (note 24)	**Retained earnings** RMB'000	**Total equity** RMB'000
Balance at 1 January 2015	–	–	31,444	2,142	24	13,381	46,991
Loss for the year	–	–	–	–	–	(4,886)	(4,886)
Other comprehensive income for the year	–	–	–	–	213	–	213
Total comprehensive expense for the year	–	–	–	–	213	(4,886)	(4,673)
Issuance of new shares	2,198	41,760	–	–	–	–	43,958
Capitalization issue of shares	8,809	(8,809)	–	–	–	–	–
Shares issue expenses	–	(3,669)	–	–	–	–	(3,669)
Deemed capital contribution from the holding company	–	–	3,885	–	–	–	3,885
Statutory reserve appropriation	–	–	–	1,073	–	(1,073)	–
Balance at 31 December 2015	11,007	29,282	35,329	3,215	237	7,422	86,492
Balance at 1 January 2016	**11,007**	**29,282**	**35,329**	**3,215**	**237**	**7,422**	**86,492**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(3,291)**	**(3,291)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**420**	**–**	**420**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**420**	**(3,291)**	**(2,871)**
Statutory reserve appropriation	**–**	**–**	**–**	**256**	**–**	**(256)**	**–**
Balance at 31 December 2016	**11,007**	**29,282**	**35,329**	**3,471**	**657**	**3,875**	**83,621**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Loss before tax		**(2,127)**	(187)
Adjustments for:			
Amortization of prepaid lease payments		**204**	204
Depreciation of property, plant and equipment		**3,447**	3,126
Impairment losses on trade receivables		**284**	804
Reversal of impairment losses on trade receivables		**(174)**	–
Interest income		**(28)**	(240)
Finance costs recognized in profit or loss		**3,196**	4,186
Net foreign exchange gains		**(129)**	(1,266)
		4,673	6,627
Movements in working capital			
Decrease/(increase) in inventories		**5,742**	(2,230)
Decrease/(increase) in trade and other receivables		**7,511**	(9,730)
(Increase)/decrease in amount due from a related party		**(19)**	948
Decrease in trade and other payables		**(6,520)**	(2,523)
Increase in amounts due to related parties		**1,231**	835
Cash generated by/(used in) operations		**12,618**	(6,073)
Income taxes paid		**(2,102)**	(3,056)
Net cash generated by/(used in) operating activities		**10,516**	(9,129)
Cash flows from investing activities			
Payments for property, plant and equipment		**(5,877)**	(4,823)
Interest received		**28**	240
Net cash used in investing activities		**(5,849)**	(4,583)
Cash flows from financing activities			
Proceeds from issue of shares		**–**	43,958
Interest paid		**(3,196)**	(4,186)
Payments of transaction costs attributable to issue of new shares		**–**	(3,669)
Proceeds from deemed capital contribution from the holding company	24	**–**	3,885
Proceeds from borrowings		**55,000**	60,000
Repayment of borrowings		**(55,000)**	(65,000)
Net cash (used in)/generated by financing activities		**(3,196)**	34,988
Net increase in cash and cash equivalents		**1,471**	21,276
Cash and cash equivalents at the beginning of year		**43,267**	21,778
Effects of exchange rate changes on the balance of cash held in foreign currencies		**151**	213
Cash and cash equivalents at the end of year		**44,889**	43,267
Analysis of balances of cash and cash equivalents			
Cash and bank balances	19	**44,889**	43,267

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

China Candy Holdings Limited (the "Company") was incorporated in the Cayman Islands on 14 March 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 11 November 2015.

The address of the Company's registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The address of the Company's principal place of business in Hong Kong is Room 1603, 16/F, China Building, 29 Queen's Road Central, Central, Hong Kong. The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sales of candies products.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the respective entity operates (the "functional currency"). The functional currency of the Company is Hong Kong dollars ("HK$"). The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is different from the functional currency of the Company as the Group's dominated operations are substantially based in the People's Republic of China (the "PRC") and the directors consider that the choice of presentation currency would better reflect the Group's business transactions.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the consolidated financial statements for the year, the Group has consistently adopted the HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for financial periods beginning on 1 January 2016.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*[1]
HKFRS 16	*Leases*[2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 7	*Disclosure Initiative*[4]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[4]

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 a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.

The Group is in the process of making an assessment of what the impact of the new or revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of preparation

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of consolidation – Continued

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that, if known, would have affected the amounts recognized as at that date.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend income from investments is recognized when the shareholders' right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group’s interests.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than the RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e. RMB) using exchange rates prevailing at the end of each of reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Foreign currencies – Continued

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In addition, deferred tax liabilities are not recognized if the temporary differences arises from the initial recognition of goodwill.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Taxation – Continued

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Value-added tax refundable recognition

Valued-added tax refundable represents the excess of input value-added tax paid over output value-added tax generated from the sale of goods or services by the Group entities. Value-added tax refundable is calculated on a monthly basis and recognized when there is reasonable assurance that the value-added tax refundable will be received from the government.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial instruments – Continued

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" ("FVTPL"), "held-to-maturity" investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held-for-trading or it is designated as at FVTPL.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held-for-trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item (if any).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial instruments – Continued

Financial assets – Continued

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity investments are recognized in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amount due from a related party, pledged bank deposits and cash and bank balances) are measured at amortized cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial instruments – Continued

Financial assets – Continued

Impairment of financial assets – Continued

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity investments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reserved through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial instruments – Continued

Financial liabilities and equity instruments – Continued

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the "other gains and losses" line item (if any).

Other financial liabilities

Other financial liabilities (including trade and other payables, amounts due to related parties and borrowings) are subsequently measured at amortized cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis other than financial liabilities classified as at FVTPL.

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial instruments – Continued

Derecognition – Continued

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Related parties

A party is considered to be related to the Group if:

(i) the party is a person or a close member of that person's family and that person

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or of a parent of the Group;

or

(ii) the party is an entity where any of the following conditions applies:

(a) the entity and the Group are members of the same group;

(b) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(c) the entity and the Group are joint ventures of the same third party;

(d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(e) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(f) the entity is controlled or jointly controlled by a person identified in (i);

(g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(h) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience, expectations of the future and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment losses on trade receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provisions at each reporting date.

Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less variable selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer demand and competitor behaviours.

5. REVENUE AND SEGMENT INFORMATION

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the executive directors of the Company, being the chief operating decision maker, for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the manufacture and sales of candies products.

Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of revenue is based on the locations of the customers. All specified non-current assets are physically located in the PRC. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment.

	2016 RMB'000	2015 RMB'000
Revenue from external customers:		
– China	**25,673**	29,713
– South East Asia	**34,652**	40,248
– North America	**14,050**	10,182
– Europe	**482**	88
– Others	**900**	993
	75,757	81,224

Information about major customers

Revenue from customers of corresponding years contributing over 10% of total revenue of the Group are as follows:

	2016 RMB'000	2015 RMB'000
Customer A	**17,868**	18,630
Customer B	**14,999**	18,543
Customer C	**11,036**	N/A[1]
Customer D	**N/A[1]**	10,625

[1] The customer did not contribute over 10% or more to the Group's total revenue in the respective year.

6. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Interest income on bank deposits	**28**	240
Government grants and subsidies (note)	**797**	5,282
Reversal of impairment losses on trade receivables	**174**	–
Others	**384**	361
	1,383	5,883

Note: Government grants and subsidies mainly consist of grants and subsidies by local governments in relation to: (i) incentives for the Group's local tax contribution as well as development of the Group's business model and (ii) measures to attract investment in selected industries and participation in business events. The amounts of these grants and subsidies are subject to the discretions of local governments and there are no unfulfilled conditions or contingencies.

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on borrowings	**3,196**	4,186

8. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax:		
PRC Enterprise Income Tax		
– Current year	**935**	3,732
Deferred tax (note 22)**:**		
– Current year	**229**	967
Total income tax recognized in profit or loss	**1,164**	4,699

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profit arising in or derived from Hong Kong for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 RMB'000	2015 RMB'000
Loss before tax	**(2,127)**	(187)
Tax at PRC Enterprise Income Tax rate of 25% (note)	**(532)**	(47)
Tax effect of expenses not deductible for tax purpose	**1,478**	4,038
Tax effect of income not taxable for tax purpose	**(43)**	–
Tax effect of tax losses not recognized	**21**	25
Utilization of tax losses previously not recognized	**(49)**	(287)
Withholding tax on undistributed profits	**229**	967
Effect of different tax rates of group entities operating in jurisdictions other than the PRC	**60**	3
Income tax expense for the year	**1,164**	4,699

Note: The PRC Enterprise Income Tax rate is used as it is the domestic tax rate in the jurisdiction where the operation of the Group is substantially based.

9. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging/(crediting):

	2016 **RMB'000**	2015 RMB'000
Employee benefits expense (including directors' and chief executive's emoluments (note 10)):		
Salaries, wages and other benefits	**8,965**	7,461
Contributions to retirement benefit scheme	**667**	1,368
Total employee benefits expense (note)	**9,632**	8,829
Auditors' remuneration – audit services	**935**	892
Cost of inventories recognized as an expense (note)	**58,350**	59,065
Amortization of prepaid lease payments (included in administrative expenses)	**204**	204
Depreciation of property, plant and equipment (note)	**3,447**	3,126
Net foreign exchange gains	**(129)**	(1,266)
Operating lease rentals in respect of rented premises	**48**	14
Impairment losses on trade receivables (included in administrative expenses)	**284**	804
Reversal of impairment losses on trade receivables	**(174)**	–

Note: Cost of inventories includes approximately RMB8,322,000 (2015: approximately RMB7,995,000) relating to employees benefits expense and depreciation, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors and the chief executive of the Company for the year were as follows:

		Other emoluments			
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
Year ended 31 December 2016					
Executive directors (note i)**:**					
Mr. Xu Jinpei ("Mr. Xu")	**520**	**144**	**–**	**8**	**672**
Ms. Hong Yinzhi ("Ms. Hong")	**520**	**144**	**–**	**8**	**672**
Ms. Li Yuna (Appointed on 30 December 2016)	**2**	**–**	**–**	**–**	**2**
Independent non-executive directors (note ii)**:**					
Mr. Ong King Keung (Appointed on 29 February 2016)	**108**	**–**	**–**	**–**	**108**
Mr. Chiu Sai Chuen Nicholas	**130**	**–**	**–**	**–**	**130**
Mr. Chu Wai Wa Fangus	**130**	**–**	**–**	**–**	**130**
Mr. Kwong Ping Man (Resigned on 29 February 2016)	**22**	**–**	**–**	**–**	**22**
	1,432	**288**	**–**	**16**	**1,736**
Year ended 31 December 2015					
Executive directors:					
Mr. Xu	67	144	–	6	217
Ms. Hong	67	144	–	6	217
Independent non-executive directors:					
Mr. Kwong Ping Man (Appointed on 26 October 2015)	17	–	–	–	17
Mr. Chiu Sai Chuen Nicholas (Appointed on 26 October 2015)	17	–	–	–	17
Mr. Chu Wai Wa Fangus (Appointed on 26 October 2015)	17	–	–	–	17
	185	288	–	12	485

Notes:

(i) The directors' fees were for their services as directors of the Company and the other emoluments were for their services in connection with the management of the affairs of the Company and the Group.

(ii) The directors' total emoluments were for their services as directors of the Company.

Ms. Hong is also the chief executive officer of the Company.

Ms. Yvonne Hung is appointed as an executive director of the Company on 2 February 2017.

None of the directors or the chief executive waived or agreed to waive any emoluments during both years.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, five (2015: two) were directors or the chief executive of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining nil (2015: three) individuals were as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**–**	244
Contributions to retirement benefit scheme	**–**	19
	–	263

Their emoluments were all within nil to HK$1,000,000.

No emoluments were paid by the Group to the directors, the chief executive or the five individuals with the highest emoluments in the Group as an inducement to join or upon joining the Group or as compensation for loss of office (2015: nil).

12. DIVIDENDS

No dividend was paid or proposed for the years ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

13. LOSS PER SHARE

	2016 RMB'000	2015 RMB'000
Loss		
Loss for the purpose of basic loss per share		
Loss for the year attributable to owners of the Company	**(3,291)**	(4,886)

	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	**1,340,000,000**	1,110,134,795

For the years ended 31 December 2016 and 2015, the calculation of basic loss per share attributable to owners of the Company was based on (i) the loss attributable to owners of the Company and (ii) the weighted average number of ordinary shares issued during the year.

The diluted loss per share is equal to the basic loss per share as there were no dilutive potential ordinary share in issue during the years ended 31 December 2016 and 2015.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Electronic and other equipment RMB'000	Property under construction RMB'000	Total RMB'000
Cost							
Balance at 1 January 2015	48,056	600	14,813	1,489	2,527	9,842	77,327
Additions	–	–	269	–	54	–	323
Construction expenditure capitalized	–	–	–	–	–	4,500	4,500
Transfer to property, plant and equipment	12,736	–	–	–	–	(12,736)	–
Balance at 31 December 2015 and 1 January 2016	60,792	600	15,082	1,489	2,581	1,606	82,150
Additions	–	–	3,509	891	1,477	–	5,877
Transfer to property, plant and equipment	1,606	–	–	–	–	(1,606)	–
Balance at 31 December 2016	62,398	600	18,591	2,380	4,058	–	88,027
Accumulated depreciation							
Balance at 1 January 2015	4,208	27	4,951	597	1,896	–	11,679
Depreciation expense	1,405	54	1,348	150	169	–	3,126
Balance at 31 December 2015 and 1 January 2016	5,613	81	6,299	747	2,065	–	14,805
Depreciation expense	1,404	54	1,496	257	236	–	3,447
Balance at 31 December 2016	7,017	135	7,795	1,004	2,301	–	18,252
Carrying amounts							
Balance at 31 December 2016	**55,381**	**465**	**10,796**	**1,376**	**1,757**	**–**	**69,775**
Balance at 31 December 2015	55,179	519	8,783	742	516	1,606	67,345

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings and structures	:	Over the shorter of the term of the lease, and 20-40 years
Leasehold improvements	:	Over the shorter of the term of the lease, and 10 years
Plant and machinery	:	10%
Motor vehicles	:	20%
Electronic and other equipment	:	20%-30 1/3%

As at 31 December 2016, certain of the Group's buildings with an aggregate carrying amount of approximately RMB51,569,000 (2015: approximately RMB52,903,000) have been pledged to secure general banking facilities granted to the Group (note 21).

15. PREPAID LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Analysed for reporting purposes as:		
Current assets	**204**	204
Non-current assets	**8,577**	8,781
	8,781	8,985

The Group's prepaid lease payments comprise land use rights of leasehold land situated in the PRC under medium-term leases.

As at 31 December 2016, the Group's leasehold land with an aggregate carrying amount of approximately RMB8,781,000 (2015: approximately RMB8,985,000) have been pledged to secure general banking facilities granted to the Group (note 21).

16. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**2,499**	8,946
Work in progress	**255**	143
Finished goods	**1,224**	631
	3,978	9,720

17. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**25,297**	21,683
Allowance for doubtful debts	**(914)**	(804)
Trade receivables, net of allowance	**24,383**	20,879
Prepayments for purchase of raw materials	**2,187**	11,249
Value-added tax refundable	**3,041**	3,221
Other receivables and prepayments	**2,988**	4,026
	32,599	39,375

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates:

	2016 RMB'000	2015 RMB'000
0-30 days	**10,092**	13,042
31-60 days	**7,100**	5,016
61-90 days	**4,432**	1,929
91-120 days	**2,634**	526
121-365 days	**125**	366
	24,383	20,879

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. The average credit period was ranging from 30 to 60 days. No interest is charged on overdue receivables.

The management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. As at 31 December 2016, 56% (2015: 64%) of the trade receivables are neither past due nor impaired relate to a number of independent customers with good settlement history and no default on settlement had been noted.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of the reporting period for which the Group has not recognized an allowance for doubtful debts because there were subsequent settlement or no historical default of payments by the respective customers and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

17. TRADE AND OTHER RECEIVABLES – Continued

Age of trade receivables that are past due but not impaired

	2016 RMB'000	2015 RMB'000
Overdue by:		
1-30 days	**5,079**	4,090
31-60 days	**3,963**	1,926
61-90 days	**1,189**	526
Over 90 days	**–**	366
	10,231	6,908

Movement in the allowance for doubtful debts

	2016 RMB'000	2015 RMB'000
At 1 January	**804**	–
Impairment losses recognized on receivables	**284**	804
Reversal of impairment losses recognized	**(174)**	–
At 31 December	**914**	804

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately RMB914,000 (2015: approximately RMB804,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 60 days as at the end of the reporting period or related to customers that were in financial difficulties. The Group does not hold any collateral over these balances.

18. AMOUNTS DUE FROM/TO RELATED PARTIES

	2016 RMB'000	2015 RMB'000
Amount due from a related party		
Jia Qing Developments Limited ("Jia Qing") (note (i))	**49**	27
Maximum amount outstanding during the year		
Jia Qing (note (i))	**49**	27
Amounts due to related parties		
Mr. Kwok Shun Tim (note (ii))	**706**	674
Ms. Hong (note (iii))	**939**	101
Mr. Xu (note (iii))	**612**	70
	2,257	845

Notes:

(i) A substantial shareholder of the Company.

(ii) Shareholder of Noble Core Limited ("Noble Core"), which is a substantial shareholder of the Company.

(iii) Directors of the Company.

The amounts due are non-trade nature, unsecured, non-interest bearing and have no fixed terms of repayment.

19. CASH AND BANK BALANCES/PLEDGED BANK DEPOSITS

Cash at banks earn interest at floating rates based on daily bank deposit rates. As at 31 December 2016, the Group's cash and bank balances with an aggregate amount of approximately RMB44,856,000 (2015: approximately RMB22,690,000) were denominated in RMB which is not a freely convertible currency in the international market. The government of the PRC has implemented foreign exchange control and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. As at 31 December 2016, deposits amounting to nil (2015: approximately RMB1,200,000) has been pledged to secure certain bills payable and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bills payable.

20. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**4,167**	8,737
Bills payable	**–**	3,000
Receipts in advance	**820**	723
Other payables and accruals	**9,670**	9,648
	14,657	22,108

The following is an aged analysis of trade payables based on the invoice date:

	2016 RMB'000	2015 RMB'000
0-30 days	**1,156**	1,786
31-60 days	**1,206**	1,077
61-90 days	**957**	1,521
91-120 days	**489**	2,842
121-365 days	**13**	1,427
Over 365 days	**346**	84
	4,167	8,737

The trade payables are non-interest bearing and generally averaging to 60 days.

As at 31 December 2015, bills payable of the Group amounting to approximately RMB3,000,000 was secured by short-term bank deposits to the extent of approximately RMB1,200,000. The bills payable are repayable with average maturity period of six months.

21. BORROWINGS

	2016 RMB'000	2015 RMB'000
Secured:		
Bank term loans (note (i), (iii))	**55,000**	50,000
Unsecured:		
Bank term loans (note (ii), (iii))	**–**	5,000
Carrying amount repayable within one year	**55,000**	55,000

21. BORROWINGS – Continued

Notes:

(i) The secured term loans were secured by a charge over the Group's buildings and leasehold land (notes 14 and 15).

(ii) As at 31 December 2015, the unsecured term loan was guaranteed by third parties.

(iii) The bank loans are repayable within one year, bear interest at rates ranging from 4.57% to 5.13% (2015: 5.66% to 8.25%) per annum as of 31 December 2016. The weighted average effective interest rate on the term loans is 5.60% (2015: 6.88%) per annum for the year ended 31 December 2016.

(iv) Certain loan agreements in respect of short-term bank borrowings of a subsidiary contain covenant clauses which require the subsidiary to meet certain stipulated financial ratios. As at 31 December 2016 and 2015, the Group did not breach any bank covenant as stated in the loan agreements.

22. DEFERRED TAXATION

The following are the deferred tax liabilities recognized and movements thereon during the years ended 31 December 2016 and 2015:

	Withholding tax on undistributed profits RMB'000
Balance at 1 January 2015	1,899
Charge to profit or loss (note 8)	967
Balance at 31 December 2015 and 1 January 2016	2,866
Charge to profit or loss (note 8)	229
Balance at 31 December 2016	**3,095**

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in full in respect of undistributed profits retained by PRC entities in the consolidated financial statements.

As at 31 December 2016, the Group has estimated unused tax losses of approximately RMB512,000 (2015: approximately RMB628,000) available for offsetting against future profits of the companies in which the losses arose that will expire within 5 years. No deferred tax asset has been recognized in respect of these estimated unused tax losses due to unpredictability of future profit streams.

23. SHARE CAPITAL

	Number of ordinary share of HK$0.01 each	Nominal value of ordinary shares HK$'000
Authorized:		
At 1 January 2015	38,000,000	380
Increase in authorized share capital (note (i))	1,962,000,000	19,620
At 31 December 2015 and 31 December 2016	2,000,000,000	20,000

	Number of ordinary share of HK$0.01 each	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Issued and fully paid:			
At 1 January 2015	1,000	–	–
Issue of shares upon capitalization issue (note (ii))	1,072,799,000	10,728	8,809
Issue of shares by placing (note (iii))	267,200,000	2,672	2,198
At 31 December 2015 and 31 December 2016	1,340,000,000	13,400	11,007

Notes:

(i) Pursuant to the written resolution of the shareholders passed on 26 October 2015, the authorized share capital of the Company was increased from HK$380,000 to HK$20,000,000 by the creation of an additional of 1,962,000,000 shares of HK$0.01 each, each ranking pari passu with the shares then in issue in all respects.

(ii) Pursuant to the written resolution of the shareholders passed on 26 October 2015, the directors were authorized to capitalize the amount of HK$10,727,990 (equivalents to approximately RMB8,809,000) standing to the credit of the share premium account of the Company and to appropriate such amount as to capital to pay up in full at par 1,072,799,000 shares for allotment and issue to the then existing shareholders of the Company, each ranking pari passu in all respects with the then existing issued shares. On 11 November 2015, the Company allotted and issued such shares as aforesaid and gave effect to the capitalization issue.

(iii) On 11 November 2015, the Company issued 267,200,000 shares pursuant to the Company's listing on the GEM of the Stock Exchange by way of placing at a price of HK$0.20 per share.

24. RESERVES

Other reserves

Other reserves represent the premium arising from the conversion of Fujian Holeywood Food Industrial Co., Ltd. to joint stock limited liability company.

Following completion of the corporate reorganization undertaken in preparation for the listing of the Company's shares on the GEM of Stock Exchange ("Corporate Reorganization"), other reserves also include (i) the difference between the nominal value of the shares and share premium of Yong Wang Holdings Limited ("Yong Wang") and the Company issued in exchange for the entire issued share capital of Yong Wang pursuant to the corporate reorganization; and (ii) deemed contribution from the controlling party arising from loan assignment.

In addition, the other reserves also includes the deemed capital contribution of approximately RMB3,885,000 from the holding company of the Company, Jia Qing, in relation to listing expenses reimbursed to the Company during the year ended 31 December 2015.

24. RESERVES – Continued

Statutory reserve

In accordance with the PRC Company Law and the PRC subsidiaries' Articles of Association, every year the PRC subsidiaries are required to transfer 0 to 10% of the profit after taxation determined in accordance with PRC Accounting Standards to the statutory reserves until the balance reaches 50% of the registered capital. Such reserve can be used to reduce any losses incurred or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

Foreign currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. RMB) are recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve in respect of translating the net assets of foreign operations are reclassified to profit or loss on the disposal of the foreign operation.

25. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 26 October 2015 as to attract and retain the best available personnel and to provide additional incentive to the eligible participants under the Scheme.

Under the Scheme, the directors of the Company may at their absolute discretion and subject to the terms of the Scheme, grant options to any employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, to subscribe for shares of the Company. The eligibility of any participants to the grant of any options shall be determined by the directors from time to time on the basis of the directors' opinion as to their contribution or potential contribution to the development and growth of the Group.

Under the Scheme, the maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares in issue upon the date of which the shares are listed and permitted to be dealt in the Stock Exchange. The 10% limit may be refreshed at any time by approval of the Company's shareholders provided that the total number of Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other share options schemes of the Company must not exceed 10% of the Company's shares in issue as at the date of approval of the refreshed limit. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the Company's shares in issue from time to time. No options may be granted under the Scheme or any other share options schemes of the Company if this will result in the limit being exceeded.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) under the Scheme or any other share option schemes of the Company, in any 12-month period up to date of grant must not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of options to a participant under the Scheme would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the independent non-executive directors of the Company (excluding independent non-executive director who is the grantee). Where any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates would result in the total number of shares issued and to be issued upon exercise of all options already granted (including options exercised, cancelled and outstanding) under the Scheme and any other share option schemes of the Company to such person in any 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the shares of the Company in issue and having an aggregate value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The offer of a grant of share options must be accepted in writing within 7 days inclusive of the date of the offer. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the directors may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof. A nominal consideration of HK$1 is payable on acceptance of the grant of an option with a remittance in favour of the Company within such time as may be specified in the offer (which shall not be later than 7 days from the date of the offer).

The subscription price shall be a price solely determined by the directors of the Company and notified to a participant and shall be at least the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of the Company's share on the date of grant of the option.

25. SHARE OPTION SCHEME – Continued

The Scheme shall be valid and effective for a period of ten years commencing on 26 October 2015, subject to early termination provisions contained in the Scheme.

No share options were granted since the adoption of the Scheme and there were no share option outstanding as at 31 December 2016 and 2015.

26. RETIREMENT BENEFIT PLANS

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. PRC subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total expense recognized in profit or loss of approximately RMB667,000 (2015: approximately RMB1,368,000) for the year ended 31 December 2016 represents contributions payable to the plan by the Group at rates specified in the rules of the plan.

27. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to owners through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2015.

The capital structure of the Group consists of net debt (which includes borrowings net of cash and cash equivalents) and equity attributable to owners of the Company (comprising issued share capital and reserves).

Adjusted debt-to-equity ratio

Management of the Group review the capital structure regularly taking into account the cost of capital and the risks associated with the of capital. The Group will balance its overall capital structure through the issuance of new shares, raise of borrowings and repayment of existing borrowings.

The adjusted debt-to-equity ratios at the end of the reporting period were as follows:

	2016 RMB'000	2015 RMB'000
Debt (note (i))	**55,000**	55,000
Cash and cash equivalents	**(44,889)**	(43,267)
Net debt	**10,111**	11,733
Equity (note (ii))	**83,621**	86,492
Adjusted debt-to-equity ratio	**12%**	14%

Notes:

(i) Debt comprises borrowings as detailed in note 21.

(ii) Equity includes all capital and reserves attributable to owners of the Company.

28. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**70,067**	66,963
Financial liabilities		
Amortized cost	**67,892**	73,421

28. FINANCIAL INSTRUMENTS – Continued

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from a related party, pledged bank deposits, cash and bank balances, trade and other payables, amounts due to related parties and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The management has been monitoring these risk exposures to ensure appropriate measures are implemented on a timely and effective manner so as to mitigate or reduce such risks.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Foreign currency risk management

For the year ended 31 December 2016, approximately 67.4% (2015: 64.8%) of the Group's revenue are denominated in United States Dollar ("USD"). The Group's dominant operations are in the PRC and most of the operating expenses are primarily denominated in RMB. The Group is exposed to currency risk arising from currency exposures primarily with respect to USD, mainly attributable to the exposure on outstanding receivables and payables denominated in USD.

The carrying amounts of the Group's USD denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**12,471**	12,111	**603**	532

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items. A negative number below indicates a decrease in profit or equity where the RMB strengthen 5% against USD. For a 5% weakening of RMB against USD, there would be an equal and opposite impact on the profit or equity, and the balances below would be positive.

	Impact of USD	
	2016	2015
	RMB'000	RMB'000
Sensitivity rate	**5%**	5%
Profit or loss	**(593)**	(579)
Equity	**(593)**	(579)

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk management

The Group's interest rate risk (comprising fair value interest rate risk and cash flow interest rate risk) relates primarily to its fixed and variable rate borrowings respectively. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark interest rate regulated by the People's Bank of China in the PRC.

The Group did not adopt any hedge policy for these borrowings as management considered that these borrowings were all short-term in nature and the exposure to the interest rate risk to the Group is minimal.

28. FINANCIAL INSTRUMENTS – Continued

(b) Financial risk management objectives and policies – Continued

Credit risk management

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position at the end of the reporting period.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and debt instrument at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or with good reputation. The Group is also subject to concentration of credit risk arising from its trade receivables as 94% (2015: 77%) of these receivables are due from the Group's largest five customers as at the end of the reporting period.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings or good reputation and on trade receivables as disclosed above, the Group does not have any other significant concentration of credit risk.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and banking facilities deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, the maturity analysis for non-derivative financial liabilities is prepared based on the scheduled repayment dates.

	Weighted average interest rate %	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	Total RMB'000
At 31 December 2016					
Trade and other payables	–	11,195	–	–	11,195
Amounts due to related parties	–	2,257	–	–	2,257
Borrowings	4.97%	–	23,552	32,494	56,046
		13,452	23,552	32,494	69,498
At 31 December 2015					
Trade and other payables	–	13,251	–	–	13,251
Amounts due to related parties	–	845	–	–	845
Borrowings	6.29%	–	18,794	37,718	56,512
		14,096	18,794	37,718	70,608

The Group has no financial instruments measured at fair value subsequent to initial recognition on a recurring basis throughout the years presented.

29. COMMITMENTS

Operating lease commitments as lessee

At the end of the reporting period, the Group had operating lease commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**62**	48
In the second to fifth years inclusive	**43**	105
	105	153

Operating leases relate to office premises with lease terms of between 3 to 5 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

Capital commitments

The Group had the following capital commitments not provided for in respect of property, plant and equipment at the end of the reporting period as follows:

	2016 RMB'000	2015 RMB'000
Contracted but not provided for:		
– Property, plant and equipment	**–**	1,260

30. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure banking facilities granted to the Group or borrowings of the Group:

	2016 RMB'000	2015 RMB'000
Prepaid lease payments	**8,781**	8,985
Property, plant and equipment	**51,569**	52,903
Pledged bank deposits	**–**	1,200
	60,350	63,088

31. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in note 18, the Group entered into the following significant related party transactions during the year:

Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**2,010**	750
Contribution to retirement benefit scheme	**47**	49
	2,057	799

32. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2016 are set out as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid-up capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Yong Wang Holdings Limited	British Virgin Islands	USD1,001	100% (direct)	Investment holding
Gain Sky (Asia) Limited	Hong Kong	HK$1	100% (indirect)	Investment holding
Jinjiang Holeywood Trading Co., Ltd. (Formerly known as Jinjiang Holeywood Enterprise Consulting Co., Ltd.) (note (i))	PRC	RMB20,000,000	100% (indirect)	Trading of raw materials of candies products
Fujian Holeywood Food Industrial Co., Ltd. (note (ii))	PRC	RMB20,513,000	100% (indirect)	Production of candies products (mainly categorized as jelly drops, aerated, hard candies and chocolate-made products)
Jinjiang Lu Lu Shun Imports & Exports Trading Co., Ltd. (note (ii))	PRC	RMB580,000	100% (indirect)	Import and export of goods and technologies and pre-package food retail
Jinjiang Holeywood Animation Design Co., Ltd. (note (ii))	PRC	RMB880,000	100% (indirect)	Inactive

Notes:

(i) This entity is wholly foreign owned enterprise established in the PRC.

(ii) The English translation of the company names is for identification purpose only. The official names of these companies are in Chinese.

33. EVENTS AFTER THE REPORTING PERIOD

On 25 January 2017, a company (the "Lender") wholly owned by Ms. Hong, entered into a loan agreement with a subsidiary of the Company (the "Borrower"), pursuant to which the Lender is agreed to lend HK$75,000,000 to the Borrower at an interest rate of 5% per annum for a term of 2 years with Lender's overriding right of withdrawal and immediate repayment on demand.

On 22 February 2017, the Company has conditionally agreed to place 268,000,000 new shares to not less than six placees at a price of HK$0.148 pursuant to the terms and conditions of the placing agreement entered into between the Company and Head & Shoulders Securities Limited.

34. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 **RMB'000**	2015 RMB'000
Non-current assets		
Investment in a subsidiary	**44,446**	44,446
Current assets		
Prepayments	**134**	126
Amount due from a subsidiary	**25,824**	29,667
	25,958	29,793
Total assets	**70,404**	74,239
Current liabilities		
Accruals	**2,620**	4,328
Amounts due to related parties	**1,224**	140
	3,844	4,468
Net current assets	**22,114**	25,325
Total assets less current liabilities	**66,560**	69,771
Capital and reserves		
Share capital	**11,007**	11,007
Reserves	**55,553**	58,764
Total equity	**66,560**	69,771

The statement of financial position was approved and authorized for issue by the Board of Directors on 16 March 2017 and are signed on its behalf by:

Xu Jinpei
Director

Hong Yinzhi
Director

35. RESERVES OF THE COMPANY

	Share premium RMB'000	Other reserves RMB'000 (note)	Foreign currency translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2015	–	44,446	4	(3,884)	40,566
Loss for the year	–	–	–	(14,941)	(14,941)
Other comprehensive expense for the year	–	–	(28)	–	(28)
Issuance of new shares	41,760	–	–	–	41,760
Capitalization issue of shares	(8,809)	–	–	–	(8,809)
Shares issue expenses	(3,669)	–	–	–	(3,669)
Deemed contribution from the holding company	–	3,885	–	–	3,885
Balance at 31 December 2015 and 1 January 2016	**29,282**	**48,331**	**(24)**	**(18,825)**	**58,764**
Loss for the year	**–**	**–**	**–**	**(4,805)**	**(4,805)**
Other comprehensive income for the year	**–**	**–**	**1,594**	**–**	**1,594**
Balance at 31 December 2016	**29,282**	**48,331**	**1,570**	**(23,630)**	**55,553**

Note: Other reserves represent (i) the difference between the nominal value of shares issued by the Company pursuant to the corporate reorganization and the aggregate net asset value of the subsidiaries acquired; and (ii) deemed capital contributions from the controlling party and holding company of the Company.

FOUR YEARS FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements in this report and the Prospectus, is as follows.

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	**75,757**	81,224	70,159	66,392
Gross profit	**15,983**	20,466	18,825	18,528
(Loss)/profit before tax	**(2,127)**	(187)	6,842	13,627
(Loss)/profit for the year	**(3,291)**	(4,886)	2,016	10,299
Assets and liabilities				
Total assets	**160,071**	169,919	142,083	123,277
Total liabilities	**76,450**	83,427	95,092	84,646
Capital and reserves				
Total equity	**83,621**	86,492	46,991	38,631