
蜡笔小新®

Annual Report 2011

# China Lifestyle Food And Beverages Group Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 1262

# Contents



# Corporate Information

## Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## Headquarters and Principal Place of Business in the PRC

Wuli Industrial Area
Jinjiang, Fujian
PRC

## Place of Business in Hong Kong

Room 1104
Asia-Pac Commercial Centre
10 North Point Road
North Point
Hong Kong

## Place of Listing and Trading Code

The Stock Exchange of Hong Kong Limited
Stock code: 1262

## Company Website

http://www.lbxxgroup.com
*(information contained in this website does not form part of this annual report)*

## Board of Directors

### Executive Directors

Zheng Yu Long *(Chairman)*
Zheng Yu Shuang *(Chief Executive Officer)*
Zheng Yu Huan

### Non-Executive Directors

Li Hung Kong *(Vice-Chairman)*
Li Gang

### Independent Non-Executive Directors

Li Zhi Hai
Sun Kam Ching
Chung Yau Tong

## Company Secretary

Yap Yung *(HKICPA)*

## Authorized Representatives

Zheng Yu Shuang
Yap Yung

## Audit Committee

Chung Yau Tong *(Chairman)*
Li Zhi Hai
Sun Kam Ching

## Remuneration Committee

Sun Kam Ching *(Chairman)*
Zheng Yu Long
Chung Yau Tong

## Nomination Committee

Li Zhi Hai *(Chairman)*
Zheng Yu Shuang
Chung Yau Tong

## Auditor

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

## Legal Advisor

Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street, Central
Hong Kong

## Compliance Adviser

Guangdong Securities Limited
Units 2505-06, 25/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

## Principal Share Registrar

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## Hong Kong Share Registrar

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

## Principal Bankers

Construction Bank of China, Jinjiang Branch
Construction Bank Building
Zeng Jin Area, Qing Yang
Jinjiang, Fujian
PRC

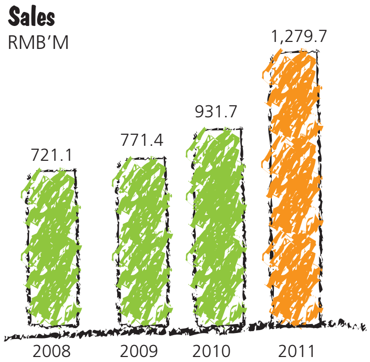
Bank of Communications, Quanzhou Branch
550 Fengze Street
Quanzhou, Fujian
PRC

China CITIC Bank, Quanzhou Branch
1–2/F, Renmin Yinhang Building
Quanzhou, Fujian
PRC

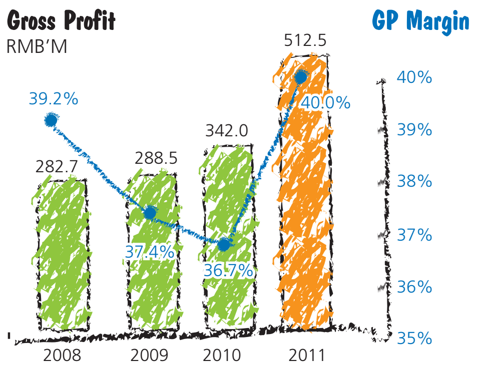
Agricultural Bank of China,
Tianjin Wuqing Branch
Jinrong Building
Northern Xinhua Road
Yangcun Town
Wuqing Area, Tianjin
PRC

# Financial Highlights

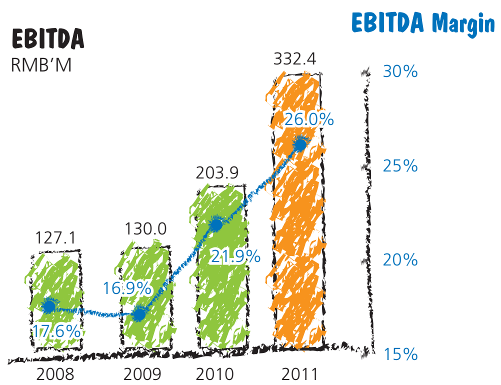
**Sales**



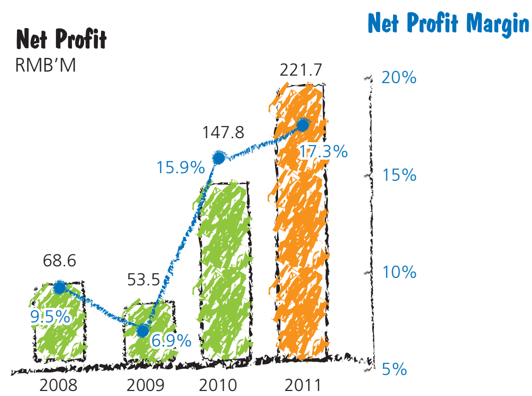

**Gross Profit**



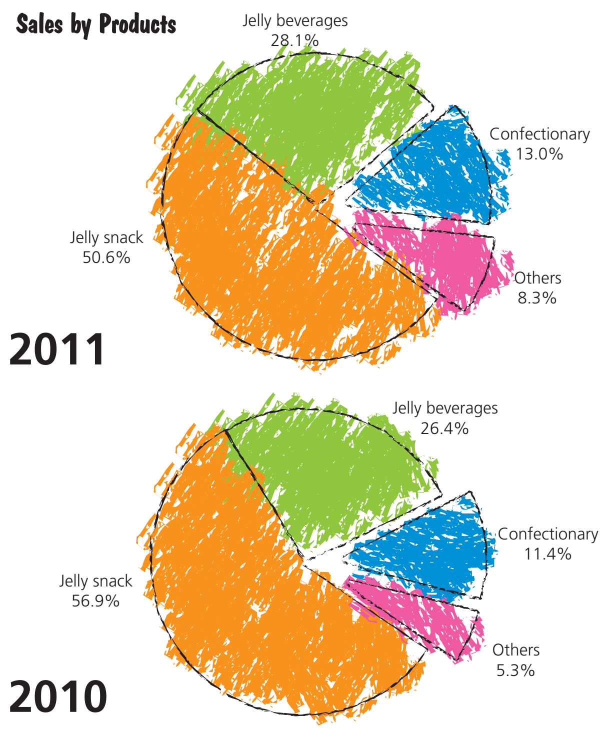

**EBITDA**



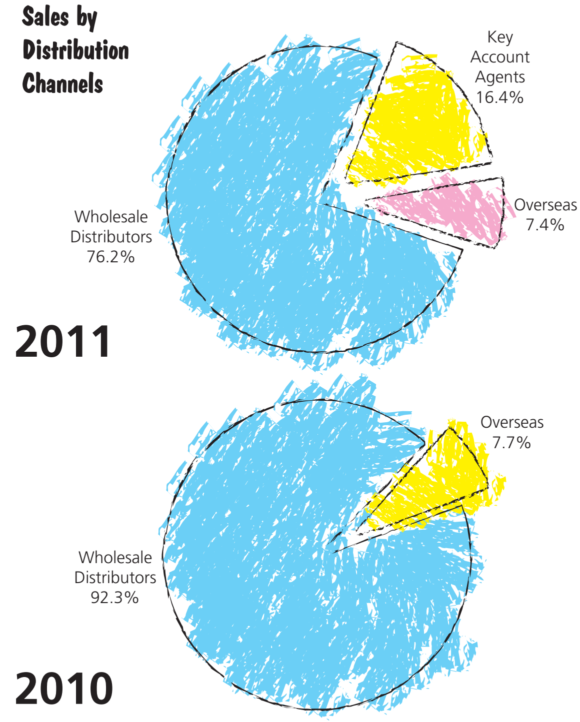

**Net Profit**




**Sales by Products**




**Sales by Distribution Channels**



# Financial Summary

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2008<br>RMB'000 | 2009<br>RMB'000 | 2010<br>RMB'000 | **2011**<br>**RMB'000** |
| Sales | 721,140 | 771,360 | 931,680 | **1,279,712** |
| Gross profit | 282,713 | 288,450 | 341,998 | **512,499** |
| Profit before income tax | 95,868 | 94,182 | 160,857 | **276,326** |
| Income tax expense | (27,237) | (40,694) | (13,019) | **(54,630)** |
| Profit for the year | 68,631 | 53,488 | 147,838 | **221,696** |

## CONSOLIDATED BALANCE SHEET

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2008<br>RMB'000 | 2009<br>RMB'000 | 2010<br>RMB'000 | **2011**<br>**RMB'000** |
| **Assets** | | | | |
| Non-current assets | 547,945 | 632,218 | 691,154 | **1,003,783** |
| Current assets | 194,406 | 206,301 | 302,583 | **881,525** |
| Total assets | 742,351 | 838,519 | 993,737 | **1,885,308** |
| **Equity and liabilities** | | | | |
| Total equity | 524,169 | 582,514 | 653,702 | **1,433,295** |
| **Liabilities** | | | | |
| Non-current liability | 3,104 | 2,052 | 7,011 | **9,245** |
| Current liabilities | 215,078 | 253,953 | 333,024 | **442,768** |
| Total liabilities | 218,182 | 256,005 | 340,035 | **452,013** |
| Total equity and liabilities | 742,351 | 838,519 | 993,737 | **1,885,308** |

# Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of China Lifestyle Food and Beverages Group Limited (the "Company"), I am pleased to deliver a promising result of the Company and its subsidiaries (the "Group") for the financial year 2011 despite for a challenging macro environment. The operating environment in 2011 for snacks industry in the PRC was characterized by high inflation. The operating costs such as raw material costs, labor costs and transportation costs, etc. increased throughout the year. The increase in costs was broad-based and was eventually reflected in retail price, people are more selective to their daily consumption. While there are new challenges, there are also new opportunities. There are new markets for us to explore, there are also new channels to reach consumers and, indeed, there is increasing number of consumers. We need to manage the challenges and we also have to grasp the opportunities. Under the dynamic and challenging operating environment, our total sales increased by 37.4% from the year 2010. Gross profit margin, EBITDA margin and net profit margin all showed significant improvement as compared with the year 2010. Net profit surged 50.0% from the year 2010, which also represents 8.1% more than the profit forecast as mentioned in the prospectus dated 29 November 2011. Cash flow was strong with operating cash flow increased by 41.2% to RMB233.7 million in year 2011.

For the year ended 31 December 2011, the Group's total sales amounted to RMB1,279.7 million, representing an increase of 37.4% as compared to the corresponding period in 2010. The increase in the Group's total sales is a result of a combination of various factors, including our expanded distribution network, improved production facilities, increase in product price and change in sales model. As a results, our gross profit for the year ended 31 December 2011 increased 49.9% from RMB342.0 million in 2010 to RMB512.5 million in 2011.

During the year under review, we modified our sales model for key account customers, representing typically large supermarket or hypermarket chains with a national or regional presence in China. Under the new sales model, the profitability of wholesale distributors, who were distributing our products to key account customers, was inevitably affected. While, we regret to see some of them chose to stop the distributorship which led to an unusual turnover rate of wholesale distributors in 2011, we are glad to see the wholesale distributors who stayed with us were able to deliver new distribution channels by better use of the working capital that previously tie up in key account customers' sales. In the year 2011, most of them performed better than ever.


During the year, we had enlarged the share-base and engaged COFCO Corporation as strategic shareholder in March 2011 and also completed the listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), which not only provided the required capital to speed up our expansion plans but also laid down solid foundation for future development. Furthermore, it generates positive impact to branding and raising our corporate profile due to closer proximity between Hong Kong and the PRC. To further maximize such impact, we proposed to change our Company's name, the same of which is subject to approval by our shareholders at our forthcoming annual general meeting. We raised a net proceeds of approximately RMB455.4 million and RMB139.1 million from the Listing and the pre-IPO investment. As at 31 December 2011, we have not yet utilized any of the net proceeds from the Listing. The proceeds from pre-IPO investment mainly funded the construction of new factory at Anhui Province.

As mentioned in the prospectus of Listing, we intend to distribute not less than 20% of profit available for dividend distribution every financial year. Year 2011 is the first financial year after Listing, we have proposed a final dividend of RMB0.05 per share, representing approximately 25% of net profit of year 2011, the same of which is subject to our shareholder's approval at the forthcoming annual general meeting.

We are committed to create another legendary brand of snacks in China and to bring the Group to a new height.

I would like to pay a tribute to my brothers, my brother-in-law, other colleagues of the Group for their dedication and contribution in 2011. On behalf of my fellow directors, I would also like to thank our business associates, customers, bankers, shareholders and all those who have contributed to the growth and success of the Group. I look forward to your continuous support in the years ahead.

Yours sincerely

**Zheng Yu Long**
*Chairman*

Hong Kong, 29 March 2012

# Management Discussion and Analysis

## Results Overview

### Sales

Sales surged 37.4% to RMB1,279.7 million in 2011. Volume growth was the primary driver to such increase. This was mainly due to solid consumption momentum in the PRC and consumers responded favorably to "*Labixiaoxin*" products under the Group's effective marketing and distribution strategies. The Group also expanded its distribution network via engaging more distributors to cover new areas or new distribution channels. As at year end of 2011, The Group had altogether 214 wholesale distributors and key account agents as compared to a total of 152 as at year end of 2010. Furthermore, the production facilities at Western China that provided the additional production capacity were one of the primary factors to the top-line growth.

During the year, product price was also stepping up partly due to the strong branding, as well as change in sales model to key account customers. Under the new sales model, the Group has a closer relationship and a direct communication with the key account customers to negotiate terms of sales, location and size of shelves in the stores, etc. The Group also engaged key account agents who primarily provide logistic and administrative services to distribute the Group's products to the key account customers. In addition, the Group typically grants longer credit term of 90 days to its key account agents, which is basically in line with credit term offered by its key account customers. Under the new sales model, the Group was selling its products at higher ex-factory prices and thus achieve higher profit margin, at the costs of more resources allocated for liaison with key account customers and monitoring product display at the retail outlets. The new sales model also required more working capital due to longer credit term for sales. However, the new sales model would enable the Group to leverage on the modern retailers' reputation and wide customer base to enhance its market position and consumers' confidence to its products. The sales via key account agents accounted for 16.4% of total sales in year 2011.

### Jelly products

Sales of jelly products increased by 29.8% from RMB775.8 million in 2010 to RMB1,007.1 million in 2011, of which sales attributable to jelly snacks and jelly beverages increased by 22.2% to RMB648.1 million and 46.2% to RMB359.0 million, respectively. The increase was mainly attributable to the increasing popularity of the brand and strong demand of the Group's products that are selling via extended distribution network across the PRC. Moreover, the production facilities that commenced operation in the second half of 2010 relieved capacity constraints, which was prerequisite to the growth.

### Confectionary products

Sales of confectionary products increased by 56.7% from RMB106.1 million in 2010 to RMB166.3 million in 2011. The growth was mainly driven by the increasing demand and expanded product menu promoted by effective marketing campaigns.

### Other products

Sales of other products increased 113.7% from RMB49.8 million in 2010 to RMB106.3 million in 2011. This was mainly due to products that were recently launched, which contributed RMB38.3 million to sales. Sales of milk-tea powder also increased 41.9% from RMB47.9 million in 2010 to RMB68.0 million in 2011.

## Cost of Sales

Cost of sales increased by 30.1% from RMB589.7 million in 2010 to RMB767.2 million in 2011 as sales, raw material costs and production costs increased during the year 2011. While there was an industry challenge on costs during the year, the Group's pressure was relatively less than some of the peers as the increase of cost of the major raw materials used for core jelly products i.e. packaging materials, was rather modest.

## Gross Profit

Gross profit increased 49.9% from RMB342.0 million in 2010 to RMB512.5 million in 2011, and gross profit margin increased by 3.3 percentage points from 36.7% in 2010 to 40.0% in 2011. The Group noted a margin improvement for all product series partly due to change in sales model during the year that led to higher gross profit margin for sales via key account agents. The Group also managed to take the necessary pricing to mitigate impact from the increase in costs which demonstrated the strength of brand and our effective marketing and distribution strategies.

## Other Income

Other income increased by 66.2% from RMB1.6 million in 2010 to RMB2.6 million in 2011, the increase was mainly attributable to the government subsidy to new production plant and increase in interest income from bank deposits.

## Selling and Distribution Expenses

Selling and distribution expenses increased 25.6% from RMB134.8 million in 2010 to RMB169.2 million in 2011 primarily due to increase in advertising and promotion expenses, freight and transportation expenses and operating expenses of sales department.

During the year under review, the Group cautiously increased the expenditure in advertising and promotion which surged 24.1% from RMB77.7 million to RMB96.4 million, representing 7.5% of sales in 2011 compared to 8.3% of sales in 2010. Freight and transportation expenses increased by 17.5% from RMB35.7 million in 2010 to RMB41.9 million in 2011 as sales increased. The logistic arrangement for product distribution across the PRC is more efficient and effective after the production facilities at Western China had commenced operation. Freight and transportation expenses accounted for 3.3% of total sales in 2011, representing a decrease of 0.5 percentage point as compared to 2010. The operating expenses of sales department increased fairly in line with sales.

## Administrative Expenses

Administrative expenses increased by 25.9% from RMB44.9 million in 2010 to RMB56.5 million in 2011 as the Group's operating scale enlarged. The Group also incurred one-off expenses in relation to the Listing during the year. Even so, the Group's administrative expenses to sales ratio was 4.4% in 2011, representing a decrease of 0.4 percentage points as compared with the ratio of last year mainly due to management cost control initiatives.

## Other Net Losses/Gains

The balance mainly comprised net exchange gains/losses, gain/loss on disposal of machinery and equipment, net of gains on sales of scrap raw materials. During the year, the Group incurred net losses of RMB4.3 million, primarily due to exchange loss caused by appreciation of Renminbi against the capital raised during the year. Furthermore, the Group derived less gain from sales of scrap raw materials during the year.

## Income Tax Expense

The Group's income tax increased by 319.6% from RMB13.0 million in 2010 to RMB54.6 million in 2011. The effective tax rate increased 11.7 percentage points to 19.8% in 2011. The increase was mainly due to inclusion of tax provision written-back amounted to RMB24.5 million for the year 2010. Excluding such item, effective tax rate of last year was 23.3%.

## Profit for the Year

Profit for the year increased by 50.0% from RMB147.8 million in 2010 to RMB221.7 million in 2011. The net profit margin improved by 1.4 percentage points from 15.9% in 2010 to 17.3% in 2011. The improvement was primarily due to price adjustment, change in sales model to key account customers, disciplined execution of cost control and benefit from economies of scale.

### Financial resources and liquidity

The Group mainly finances its operations and capital expenditures by operating cash flows, banking facilities and capital raised from issue of new shares.

As at 31 December 2011, the bank balances and deposits of the Group amounted to RMB540.0 million, representing an increase of more than ten times as compared with year ended 2010. This was mainly due to proceeds received from Listing in December 2011 and strong operating cash flow. Over 70% of the Group's cash and bank balances as at year ended 2011 were denominated in RMB. Total borrowings of the Group as at year ended 2011 increased 70.7% to RMB157.0 million. All borrowings were denominated in RMB. The Group was at net cash position of RMB383.0 million as at year ended 2011 versus net debts of RMB45.9 million as at year ended 2010. This was primarily due to the capital raised from issue of new shares and strong operating cash flow.

As at 31 December 2011, the gearing ratio, being the total borrowings divided by total equity, was 11.0% (2010: 14.1%). The Group maintains sufficient cash and available banking facilities for its working capital requirements and for capitalizing on any potential investment opportunities in the future. The Group will from time to time make prudent financial arrangements and decisions to address changes in the domestic and international financial environment.

### Inventories

The Group's inventories primarily consist of finished goods of jelly products, confectionary products and other products, as well as raw materials and packaging materials. Balance increased 4.3% from RMB76.9 million in 2010 to RMB80.1 million in 2011, as the operating scale increased. The inventories turnover days for year 2011 and 2010 were 30 days and 29 days, respectively.

### Trade receivables

Trade receivables mainly represent the balance due from customers. The Group typically sells its products on credit and grant 30 days credit to most of the wholesale distributors and 90 days credit to key account agents. Balance increased by 64.8% from RMB147.6 million as at year ended 2010 to RMB243.3 million as at year ended 2011, mainly due to the increase in sales and change in sales model. The trade receivables turnover days also increased 15 days from 33 days in 2010 to 48 days in 2011 mainly due to longer credit term the Group granted to key account agents in 2011.

### Trade payables

Trade payables mainly represent the balance due to the Group's suppliers who generally grant credit terms from 30 days to 60 days. The Group also settled some of the procurement by bank bills which typically have 180 settlement days, at cost of bank charges and pledged deposits to the banks. Trade payables turnover days for year 2011 and 2010 were 86 days and 85 days, respectively.

### Cash flow

Cash flow generated from operating activities surged 41.2% from RMB165.5 million in 2010 to RMB233.7 million in 2011. The Group has spent RMB360.6 million in investing activities mainly for expansion of production facilities. The Group has raised RMB630.6 million from financing activities which primarily represents proceeds received from issue of new shares during the year and bank borrowings.

## Capital expenditure

Given the dynamic consumption sentiment in the PRC and the increasing demand to the Group's products, the Group expands the production capacity from time to time. The construction of production plant at Western China has been completed and has commenced operation in second half of 2010 that brought an immediate economic benefit to the Group in 2011. The Group is building a new factory at Anhui Province in this year to support the markets at Eastern and Central China in the future. In addition, the Group is also expanding the production capacity of the existing production plants. The Group spent RMB361.9 million for capital expenditure in 2011 which was mainly for acquisition of land parcel, construction of factories, warehouses and staff quarters and acquisition of new machinery and equipment. The above capital expenditure was primarily funded by proceeds received from pre-IPO investment prior to Listing, banking facilities and operating cash flow.

## Material Acquisition and Disposal of Subsidiaries and Associated Companies

There was no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2011.

## Charges on assets

As at 31 December 2011, no property, plant and equipment and land use rights were pledged as security for banking facilities available to the Group (2010: nil). Bills payable were secured by pledged bank deposits of approximately RMB18,010,000 (2010: RMB27,904,000).

## Contingent liabilities

As at 31 December 2011, the Group had no contingent liabilities (2010: Nil).

## Employment and remuneration policy

As at 31 December 2011, the Group had approximately 2,300 employees (2010: 2,490 employees) and total remuneration expenses for the year in 2011 amounted to RMB83.0 million (2010: RMB73.0 million). The employees' salaries are reviewed and adjusted annually based on employees' performance and experience. The employee benefits include performance bonus, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff. The Group also has a discretionary share option scheme which is designed to award employees for their performance.

## Purchase, sale or redemption of the Company's shares

The Company has not redeemed any of the Company's securities during the year ended 31 December 2011, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities during the year.

## Future plan and Prospects

The Group expects that the business environment for the upcoming years to remain challenging with volatile operating costs for the industry, which is unlikely to change in the near future. Yet the Group is encouraged by the robust consumption momentum in the PRC that gives the Group great confidence when develop its plan.

The Group will leverage on the brand and distribution network that have developed to further enhance its market position. In order to do this, the Group will continuously implement various effective marketing activities to enhance the brand awareness and catch the eye-balls of consumers. The Group plans to maintain its advertising and promotion expenditures at a range of 8% to 10% of sales in the year 2012. In addition, the Group will continuously broaden the product portfolio to offer more choices of good quality and healthy snacks to the consumers. The Group will also expand its distribution network to cover new areas and new distribution channels by engaging more wholesale distributors or coaching the wholesale distributors to engage sub-distributors. The Group implemented the change in sales model to key account customers in 2011 and is happy to see the outcome both from business and financial perspective. The Group has now engaged 10 key account agents who mainly cover the key account customers at south-east regions. The number of key account agents will, for sure, be increasing to cover other areas. The Group will also fine-tune the sales model, as necessary, to develop long-term relationship with the key account agents and other business partners. The Group expects to spend approximately RMB300 million in capital expenditures in 2012 which is mainly for construction project undergoing at Anhui Province and expansion of production capacity at the existing production facilities. The Group expects the production capacity of jelly products will increase to 250,000 tons per annum by end of 2012.

# Biographical Details of Directors

## Zheng Yu Long

### Chairman and Executive Director

Mr. Zheng, aged 46, is our chairman and executive Director. He was appointed as our Director on June 1, 2004 and was re-designated as an executive Director on September 23, 2011. Mr. Zheng is primarily responsible for the overall operations, strategic planning and business development of our Group. He is also actively involved in the marketing of our products and branding of our Group, and procurement of raw materials of our products from suppliers. Mr. Zheng is a key contact person between our Group and our business partners. He is one of the founders of our jelly products business and is also a director of our subsidiary, Timeluck. Mr. Zheng joined us in 2000 as a managing director of LBXX Fujian. Mr. Zheng has over 20 years of experience in the marketing and manufacturing of snack food products. Since joining our Group in 2000, Mr. Zheng has dedicated the past 11 years to expand and promote our Group's business from a manufacturer of jelly products to a recognized snack food brand in China. From 1991 to 2000, Mr. Zheng was the general manager of Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司), where he was responsible for the daily operations, sales, production, procurement and business development of this company. Through such experiences, Mr. Zheng has developed extensive relationships with the industry partners and is able to keep abreast of the latest development of the snack food industry. Mr. Zheng is a brother of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan and a brother-in-law of Mr. Li Hung Kong. Mr. Zheng Yu Long was brought up in the PRC. Mr. Zheng has never been a full time government official of any country, or a full time employee of any state or government-owned/operated entity for a substantial period of time.

## Zheng Yu Shuang

### Chief Executive Officer and Executive Director

Mr. Zheng, aged 43, is our chief executive officer and executive Director. He was appointed as our Director on June 1, 2004 and was re-designated as an executive Director on September 23, 2011. Mr. Zheng is primarily responsible for the overall operations of our Company. He heads our production department and oversees our quality control department. Mr. Zheng is one of the founders of our jelly products business and is also a director of a number of our subsidiaries, including LBXX Investments, LBXX Holdings, LBXX International, LBXX Sichuan, LBXX Anhui, LBXX Fujian, LBXX Tianjin and Timeluck. Mr. Zheng has over 17 years of experience in the manufacture of snack food products. He joined us in 2000 as the general manager of LBXX Fujian. From 1994 to 2000, Mr. Zheng was a general manager of the production and quality control department of Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司). Mr. Zheng received his master's degree in business administration in May 2006 from Renmin University of China (中國人民大學). He received a certificate qualifying as a senior quality control inspector (高級質量(品質)管理師) from China Professional Development Centre (中國專業人才庫管理中心) in July 2009. Mr. Zheng has also assumed several social positions, such as the honorary chairman of Jinjiang Food Industry Association (晉江市食品行業協會) from 2007 to 2010, a member of the Tianjin Chinese People's Political Consultative Conference (天津市人民政治協商會議) from 2008 to 2012, and the vice-chairman of China National Confectionary Association (中國食協糖果專業委員會) from May 2010 to May 2013. Mr. Zheng is the brother of Mr. Zheng Yu Long and Mr. Zheng Yu Huan and the brother-in-law of Mr. Li Hung Kong.

# Zheng Yu Huan

## Executive Director

Mr. Zheng, aged 41, is our executive Director. He was appointed as our Director on June 15, 2004 and was re-designated as an executive Director on September 23, 2011. Mr. Zheng is primarily responsible for our sales and marketing operations, including formulating our advertising and promotional programs. Mr. Zheng is one of the founders of our jelly products business and is also a director of a number of our subsidiaries including LBXX International and Timeluck. Mr. Zheng has over 15 years of experience in sales and marketing of snack food products. He joined us in 2000 as a deputy general manager of LBXX Fujian. From 1996 to 2000, Mr. Zheng was a general manager of the sales and marketing department of Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公司). Mr. Zheng received his master's degree in business administration from Renmin University of China (中國人民大學) in 2006. Mr. Zheng graduated from an executive development program for senior management from Xiamen University (廈門大學) in December 2010. Mr. Zheng has also assumed several social positions, such as a representative of the Eleventh Jinjiang Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆福建省晉江市委員會) since 2006, the vice-president of the Sixth Fujian Provincial Youth Federation (第六屆福建省青年聯合會), and member of the Tenth Fujian Provincial Youth Federation (第十屆福建省青年聯合會). He was recognized as one of the China Industrial Economy Top 10 Outstanding Youth (中國工業經濟十大傑出青年) in December 2009 by China Industrial Forum (中國工業論壇). Mr. Zheng is the brother of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and the brother-in-law of Mr. Li Hung Kong.

# Li Hung Kong

## Vice Chairman and Non-Executive Director

Mr. Li, aged 43, is our vice-chairman and non-executive Director. He was appointed as our Director on June 1, 2004 and was re-designated as a non-executive Director on September 23, 2011. He is an experienced entrepreneur who has over 17 years of experience in investing and managing manufacturing business. He is also a director of a number of our subsidiaries, including LBXX Investments, LBXX Holdings, LBXX Fujian and Timeluck. Mr. Li joined us in 2000 as a director of LBXX Fujian. Prior to joining us, Mr. Li founded the following companies in the 1990s, Jinjiang Xingtai Packing Wear Co., Ltd. (晉江市興泰包裝用品有限公司), Fujian Huatai Packing Co., Ltd. (福建華泰包裝用品有限公司), companies engaged in the paper packaging business, and Jen Yuon Trading Co. (晉融貿易公司), a company engaged in commercial trading, and has been as a director in each of these companies since their establishment. Mr. Li is a brother-in-law of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan.

# Li Gang

## Non-Executive Director

Mr. Li, aged 37, is our non-executive Director. He was appointed as our non-executive Director on October 24, 2011. Mr. Li has over 12 years of experience in financial management, investor relations and private equity. From 1996 to 2003, Mr. Li was with Agricultural Bank of China, Heilongjiang branch (中國農業銀行黑龍江分行), where he last held the position of the operations manager of the international business division. He served as a quantity analyst in China Securities Co., Ltd. (中信建投證券有限責任公司) in early 2007 and a institution strategy analyst of China Asset Management Co., Ltd. (華夏基金管理有限公司) from 2007 to 2008. From 2008 to 2010, Mr. Li served as the general manager of investment management department of COFCO Trust Co., Ltd. (中糧信託有限責任公司). He is currently the general manager of investment management department of COFCO Agricultural Industry Fund Management Co., Ltd. (中糧農業產業基金管理有限責任公司). Mr. Li received a bachelor's degree in economy from China Institute of Finance (中國金融學院) in 1996 and a master's degree in finance from Concordia University in 2005. Mr. Li is a chartered member of the Chartered Financial Analysts Institute.

## Li Zhi Hai

### Independent Non-Executive Director

Mr. Li, aged 57, is our independent non-executive Director. He was appointed as our independent non-executive Director on September 23, 2011. Mr. Li has over 20 years of experience in the traditional Chinese medicine and health food industries and held key leadership positions in institutions and societies, including the director of the Specialist Research Center of the China Traditional Chinese Medicine Association (中華中醫藥學會專病研究所) from 2002 to 2004. Mr. Li currently serves as the dean of Tangshan Chinese and Western Medicine Specialist Hospital (唐山中西醫專科醫院) since 1990, the director of Beijing Guofang Traditional Chinese Medicine Research Center (北京國方中醫藥研究院) since 2001, the vice-president of the China Medicine Culture Research Center (中國藥文化研究會) since 2004, and the director of the CHC National Food Production Association (CHC全國高科技食品產業化委員會) since 2007.

## Sun Kam Ching

### Independent Non-Executive Director

Ms. Sun, aged 39, is our independent non-executive Director. She was appointed as our independent non-executive Director on September 23, 2011. Ms. Sun has over 15 years of experience in business administration and financial management. Ms. Sun joined Jinjiang Aile Group (晉江愛樂集團) ("Jinjiang Aile") in 1996 and held various positions in Jinjiang Aile, including head of the sales department of Jinjiang Aile Shoes and Clothing Co., Ltd. (晉江愛樂鞋服公司), a subsidiary of Jinjiang Aile, from 1996 to 2000, the chief sales planning officer of Jinjiang Aile since 2003, and the chief financial officer of Jinjiang Aile since 2005. Ms. Sun has also been responsible for the image consultancy of Jinjiang Aile and is involved in the management of certain subsidiaries of Jinjiang Aile, including Jinjiang Aile Holiday Hotel (晉江愛樂假日酒店) and Shishi Aile Holiday Hotel (石獅愛樂假日酒店) since 2000. Ms. Sun received a bachelor's degree in business administration from Huaqiao University (華僑大學) in 1994. She also attended the training course for independent non-directors conducted by the Shenzhen Stock Exchange in 2008.

## Chung Yau Tong

### Independent Non-Executive Director

Mr. Chung, aged 39, is our independent non-executive Director. He was appointed as our independent non-executive Director on September 23, 2011. Mr. Chung has over 16 years of experience in audit practice, financial management and compliance assurance of listed companies in Hong Kong. From 1994 to 2000, Mr. Chung was with PricewaterhouseCoopers, where he last held the position of a manager. Mr. Chung was with CITIC 21CN Company Limited (Stock code: 00241) from 2000 to 2005, where he last held the position as the group financial controller. He was a qualified accountant of Gome Electrical Appliances Holding Company Limited (Stock code: 00493) from 2005 to March 2007. Mr. Chung was the financial controller and company secretary of Vongroup Limited (Stock code: 00318) from March 2007 to December 2007. He currently serves as the financial controller and company secretary of Chaoyue Group Limited (Stock code: 00147) since 2008. Mr. Chung received a bachelor's degree in business administration from The University of Hong Kong in 1994. He is a fellow of the Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

# Corporate Governance Report

## Corporate Governance Practices

The Company is dedicated to ensure high standards of corporate governance with an emphasis on a diligent Board, sound internal control, and increasing transparency and accountability to shareholders. The Board acknowledges that good corporate governance practices and procedures are beneficial to the Group and its shareholders. The Company is committed to improving those practices and maintaining its ethical corporate culture.

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance practices.

The Company has fully complied with all the compulsory code provisions set out in the CG Code throughout the year ended 31 December 2011.

## Board of Directors

### The Board

The Board currently comprises eight members. Three executive Directors, namely: Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan; two non-executive Directors, namely: Mr. Li Hung Kong and Mr. Li Gang; and three independent non-executive Directors, namely: Mr. Li Zhi Hai, Ms. Sun Kam Ching and Mr. Chung Yau Tong. The biographical details of the Board members are set out on pages 13 to 15 of this Annual Report. The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The Board's composition satisfies the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules, which stipulate that there should be at least three independent non-executive Directors representing at least one-third of the Board, and of whom at least one of the independent non-executive Directors must possess appropriate professional qualifications or accounting or related financial managing expertise.

The functions and duties conferred on the Board include convening shareholders' meetings and reporting on the work of the Board to the shareholders at shareholders' meetings as may be required by applicable laws, implementing resolutions passed at shareholders' meetings, determining the Company's business plans and investment plans, formulating the Company's annual budget and final accounts, formulating the Company's proposals for dividend and bonus distributions as well as exercising other powers, functions and duties as conferred on it by the applicable laws. The senior management is delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. The Board meets regularly to review the financial and operating performance of the Company, and considers and approves the overall strategies and policies of the Company. The composition of the Board is well balanced with the directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company.

The Company has received, from each of the existing independent non-executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company is satisfied with the independence of the independent non-executive Directors.

All Directors have separate and independent access to the Company's senior management to fulfill their duties and, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense. All Directors also have access to the company secretary who is responsible for ensuring that the Board procedures, and all applicable rules and regulations, are followed. An agenda and accompanying Board/committee papers are distributed to the Directors/Board committee members with reasonable notice in advance of the meetings. Minutes of Board meetings and meetings of Board committees, which records in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed, are kept by the company secretary and are open for inspection by Directors.

The Company has subscribed appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against directors arising out of corporate activities.

## Chairman and Chief Executive Officer

Mr. Zheng Yu Long is the chairman of the Board, responsible for providing leadership to the Board and ensuring that the Board functions effectively, that Directors receive in timely manner adequate information which is complete and reliable and that all Directors are properly briefed on issues proposed at Board meetings. The chairman also encourages Directors to participate actively and to make a full contribution to the Board so that the Board acts in the best interest of the Group.

Mr. Zheng Yu Shuang is the chief executive officer of the Company, responsible for the daily operations of the Group, execution of business policies, strategies, objectives and plans as formulated and adopted by the Board and lead the management of the Group.

## Appointments, Re-election and Removal of Directors

Each of the executive Directors and non-executive Directors has entered into a service agreement with the Company for an initial term of three years and one year commencing on 23 September 2011 and 24 October 2011 respectively, whereas each of the independent non-executive Directors has entered into a letter of appointment with the Company and is appointed for an initial term of one year commencing from 23 September 2011.

In selecting and approving candidate for directorship, the Board will consider various criteria such as education, qualification, experience, integrity and the potential contribution to the Group. A newly appointed Director must be able to meet the standards as set out in Rules 3.08 and 3.09 of the Listing Rules. For independent non-executive Directors, the candidates should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

Directors appointed to fill a causal vacancy are subject to election by shareholders at the next annual general meeting after their appointment and every Director is subject to retirement by rotation at least once every three years.

## Induction and Continuing Development of Directors

Each newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary.

## Board Committees

As an integral part of sound corporate governance practices, the Board has established the following Board committees to oversee the particular aspects of the Group's affairs. Each of these committees comprises independent non-executive Directors who are being invited to join as members.

## Audit Committee

The audit committee of the Company (the "Audit Committee") was established in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Board. The members meet regularly with the external auditor and the Company's senior management for the review, supervision and discussion of the Company's financial reporting and internal control procedures and ensure that management has discharged its duty to have an effective internal control system. The Audit Committee consists of three members, namely Mr. Chung Yau Tong, Mr. Li Zhi Hai and Ms. Sun Kam Ching of which are all independent non-executive Directors and none of whom is a former partner of the Company's existing auditing firm. Mr. Chung Yau Tong, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

Since the Audit Committee was only established on 9 December 2011, the Audit Committee did not hold any meeting during the year under review. From 2012 onwards, the Audit Committee will hold meetings at least twice a year.

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2011, including the accounting principles and practices adopted by the Group, selection and appointment of the external auditor.

## Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 9 December 2011 with written terms of reference in compliance with the CG Code. During the period ended 31 December 2011, the Remuneration Committee was chaired by Mr. Zheng Yu Long with two independent non-executive Directors, namely Ms. Sun Kam Ching and Mr. Chung Yau Tong, as members. The principal responsibilities of the Remuneration Committee are to formulate and recommend remuneration policy to the Board, to determine the remuneration of executive directors and members of senior management, to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time and to make recommendation on other remuneration related issues. The Board expects the Remuneration Committee to exercise independent judgment and ensures that executive Directors do not participate in the determination of their own remuneration.

For the purpose of complying with the amendments to the Listing Rules which became effective on 1 April 2012, Ms. Sun Kam Ching, an existing committee member and an independent non-executive Director, has been appointed as the chairman of the remuneration committee of the Company in place of Mr. Zheng Yu Long, the chairman of the Board and an executive Director, with effect from 29 March 2012. Mr. Zheng Yu Long remains as a member of the Remuneration Committee

The Company did not hold committee meeting for the year ended 31 December 2011 because the Company only listed on 9 December 2011. The Remuneration Committee considers hat it is not necessary to review the remuneration policy to the Board and members of senior management in the first year after listing. From 2012 onwards, the Remuneration Committee will hold meetings at least once a year.

## Nomination Committee

The nomination committee of the Company (the "Nomination Committee") was established on 9 December 2011. During the period ended 31 December 2011, the chairman was Mr. Zheng Yu Shuang, an executive Director, and two other members are Mr. Li Zhi Hai and Mr. Chung Yau Tong, both of them are independent non-executive director. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, appointment, reappointment of Directors and Board succession and assessing the independence of independent non-executive Directors.

For the purpose of complying with the amendments to the Listing Rules which became effective on 1 April 2012, Mr. Li Zhi Hai, an existing committee member and an independent non-executive Director, has been appointed as the chairman of the nomination committee of the Company in place of Mr. Zheng Yu Shuang, an executive Director, with effect from 29 March 2012. Mr. Zheng Yu Shuang remains as a member of the Nomination Committee

During the period from 9 December 2011 to 31 December 2011, there was no meeting held by the Nomination Committee. The Nomination Committee considers that it is not necessary to review the composition of the Board during the first year of listing. From 2012 onwards, the Nomination Committee will hold meetings of least once a year.

## Number of Meetings and Directors' Attendance

During the period from 9 December 2011, the date of Listing and up till the year ended 31 December 2011, the Board, Audit Committee, Remuneration Committee and Nomination Committee had not held any meeting.

## Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the period under review, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the Model Code for the year ended 31 December 2011.

## Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparation of the financial statements for the financial year ended 31 December 2011 which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the applicable statutory requirements and accounting standards. The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report".

## Auditor's Remuneration

For the year ended 31 December 2011, the Group's external auditor provided the following services to the Group:

| | RMB'000 |
|---|---|
| Initial Public Offering | 3,056 |
| Statutory audit services | 1,467 |
| TOTAL | 4,523 |

## Internal Control

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness through the Audit Committee. The Company has engaged an external consulting firm to conduct a review of the effectiveness of the system of internal control of the major operating subsidiaries of the Group including recommendations to enhance the overall internal control system for the year ended 31 December 2011. Based on information furnished to it and on its own observations, the Board is satisfied with the present internal controls system.

## Deed of Non-Competition

The Company has received, from each of the controlling shareholders of the Company, an annual declaration on his/her/its compliance with the undertakings contained in the Deed of Non-Competition entered into by each of them in favour of the Company pursuant to which each of the controlling shareholders of the Company has undertaken to the Company that he/she/it will not and will procure that his/her/its associates (other than members of the Group) not to, engage in any of our business including (without limitation) the following activities:

- acquiring, holding, developing, transferring, disposing or otherwise dealing in, whether directly or indirectly, axle components business or related investments;

- engaging, having a right or in any way having an economic interest, in the promotion or development of or investment in axle components business; or

- acquiring, holding, transferring, disposing or otherwise dealing in any option, right or interest over any of the matters set out in the two paragraphs above;

except for acquiring, holding, transferring, disposing or otherwise dealing in, directly or indirectly, shares of any company, joint venture, corporation or entity of any nature, whether or not incorporated, with any interest in the matters set out in the three paragraphs above so long as their aggregate interest in any such entity is less than 5% of its equity interest.

Details of the Deed of Non-Competition were disclosed in the Prospectus under the section headed "Relationship with Our Controlling Shareholders".

The independent non-executive Directors have reviewed and were satisfied that each of the controlling shareholders of the Company has complied with the Deed of Non-Competition for the year ended 31 December 2011.

## Shareholders Relations

The Board recognizes the importance of maintaining a clear, timely and effective communication with the shareholders of the Company and investors. The Board also recognizes that effective communication with its investors is critical in establishing investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the shareholders of the Company will receive accurate, clear, comprehensive and timely information of the Group through the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate communications on the Company's website at www.lbxxgroup.com. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. The Directors and members of various board committees will attend the annual general meeting of the Company and answer any questions raised. The resolution of every important proposal will be proposed at general meetings separately.

The chairman of general meetings of the Company would explain the procedures for conducting a poll before proposing a resolution for voting. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

# Directors' Report

The Board of Directors (the "Board") have pleasure in presenting their report and the audited consolidated financial statements of the Company for the year ended 31 December 2011.

## Principal Activities

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 18 to the consolidated financial statements.

The principal activities of the Group are the manufacture and sale of jelly products, confectionary products, and other snack food products in the PRC.

## Results and Appropriations

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 31.

During the year ended 31 December 2011, an interim dividend of RMB0.079 (2010: RMB0.152) per share, amounting to approximately RMB40,000,000 (2010: RMB76,650,000) was paid to the then shareholders of the Company.

The Board have recommended the payment of a final dividend of RMB0.05 (2010: Nil) per share, amounting to approximately RMB56,280,000 (2010: Nil) in total. The proposed final dividend for the year ended 31 December 2011 has been approved at the Company's Board meeting on 29 March 2012 and is subject to approval by the shareholders at the forthcoming annual general meeting of the Company and will be paid to the shareholders whose names appear on the register of members on 5 June 2012.

## Property, Plant and Equipment

Details of movements in property, plant and equipment during the year are set out in note 16 to the consolidated financial statements.

## Borrowings

Particular of borrowings of the Group as at 31 December 2011 is set out in note 28 to the consolidated financial statements.

## Share Capital

Details of the share capital of the Company are set out in note 29 to the consolidated financial statements.

## Reserves

As at 31 December 2011, the distributable reserves of the Company amounted to RMB74.4 million. The movements in the reserves of the Group during the year are set out on page 35 of the consolidated financial statements.

## Financial Summary

A summary of the results and other assets and liabilities of the Group for the last four financial years is set out on page 5 of this Annual Report.

## Directors

The directors of the Company during the year and up to the date of this report were:

### Executive Directors:

| | |
|---|---|
| Mr. Zheng Yu Long *(Chairman)* | (appointed as Director on 1 June 2004 and was re-designated on 23 September 2011) |
| Mr. Zheng Yu Shuang *(Chief Executive Officer)* | (appointed as Director on 1 June 2004 and was re-designated on 23 September 2011) |
| Mr. Zheng Yu Huan | (appointed as Director on 15 June 2004 and was re-designated on 23 September 2011) |

### Non-Executive Directors:

| | |
|---|---|
| Mr. Li Hung Kong *(Vice-chairman)* | (appointed as Director on 1 June 2004 and was re-designated on 23 September 2011) |
| Mr. Li Gang | (appointed on 24 October 2011) |

### Independent Non-Executive Directors:

| | |
|---|---|
| Mr. Li Zhi Hai | (appointed on 23 September 2011) |
| Ms. Sun Kam Ching | (appointed on 23 September 2011) |
| Mr. Chung Yau Tong | (appointed on 23 September 2011) |

In accordance to bye-law 83(2) of the Company's Bye-law, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. And in accordance to bye-law 84(1) of the Company's Bye-law, one third of the Directors shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. Accordingly Mr. Zheng Yu Huan, Mr. Li Hung Kong, Mr. Li Gang, Mr, Li Zhi Hai, Ms. Sun Kam Ching and Mr. Chung Yau Tong shall retire at the forthcoming annual general meeting of the Company, and being eligible will offer themselves for re-election as directors of the Company at the forthcoming annual general meeting of the Company.

Biographical details of Directors are set out on pages 13 to 15 of this Annual Report.

## Director's Remuneration

The remuneration of the Directors is determined with reference to the Director's duties, responsibilities, performance and the results of the Group. Details of the remuneration of the Directors are set out in note 10 to the consolidated financial statements.

## Independent Non-Executive Directors

The Company has received, from each of the Independent Non-Executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considered all of the Independent Non-Executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

## Directors' Service Contracts

No director proposed for re-election at the forthcoming annual general meeting of the Company has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## Directors' Interests in Contracts

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Directors' Interests in Competing Businesses

None of the Directors of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group.

## Directors' Interests in Shares and Underlying Shares

At 31 December 2011, the interests and short positions of the directors and the chief executive and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### (i) Long position in shares and underlying shares of the Company

| Name of Director/ Chief Executive | Nature of interest | Number of shares interested | Approximate percentage of interest in the Company | *Note* |
|---|---|---|---|---|
| Zheng Yu Long | Interest of a controlled corporation | 610,915,527 | 54.3% | *1* |
| | Beneficial owner | 110,208,060 | 9.8% | |
| Zheng Yu Shuang | Interest of a controlled corporation | 610,915,527 | 54.3% | *1* |
| Zheng Yu Huan | Interest of a controlled corporation | 610,915,527 | 54.3% | *1* |
| Li Hung Kong | Interest of a controlled corporation | 610,915,527 | 54.3% | *1* |
| Li Gang | Beneficial owner | 123,429 | 0.01% | |

*Notes:*

(1) The 610,915,527 Shares are beneficially owned by Alliance Food And Beverages (Holding) Company Limited ("Alliance Holding"), a company which is owned as to 28% by each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and as to 16% by Li Hung Kong. Accordingly, each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and Li Hung Kong is deemed to be interested in the shares held by Alliance Holding for the purpose of the SFO.

## (ii) Long position in shares and underlying shares of the associated corporation

| | | | | Number of ordinary shares (long positions) | | |
|---|---|---|---|---|---|---|
| **Name of Director** | **Name of associated corporation** | **Interest held by controlled corporation** | **Personal interest** | **Family interest** | **Total number of shares held in associated corporation** | **Approximate percentage of issued share capital of associated corporation** |
| Zheng Yu Long | Alliance Holding | — | Beneficial owner | — | 28 | 28% |
| Zheng Yu Shuang | Alliance Holding | — | Beneficial owner | — | 28 | 28% |
| Zheng Yu Huan | Alliance Holding | — | Beneficial owner | — | 28 | 28% |
| Li Hung Kong | Alliance Holding | — | Beneficial owner | — | 16 | 16% |

Save as disclosed above, as at 31 December 2011, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), (a) which were 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 short positions which they were taken or deemed to have under such provisions of the SFO) or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

# Share Options

The Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 23 September 2011.

The purpose of the Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to recognize and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the objectives, (i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and (ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

The Directors may, at their discretion, invite any Directors, employees and officers of any member of the Group and any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners and service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group to participate in the Share Option Scheme.

Initially the maximum number of shares which may be issued upon exercise of all the options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) shall not exceed 10% of the aggregate number of the shares in issue as at the date of the Listing which was 112,560,000 shares, representing 10% of the issued share capital of the Company as at the date of this Annual Report. The total number of shares which may be issued upon exercise of all the options granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the aggregate number of the shares in issue from time to time.

Unless approved by shareholders, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised, cancelled and outstanding options) under the Share Option Scheme or any other share option scheme adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) in any 12 month period must not exceed 1% of the shares in issue.

The vesting periods, exercise periods and vesting conditions may be specified by the Company at the time of the grant, and the share options shall expire no later than 10 years from the relevant date of grant.

At the time of the grant of the options, the Company may specify any performance target(s) which must be achieved before the options can be exercised. The Share Option Scheme does not contain any performance targets.

The subscription price for the shares of the Company being the subject of the options shall be no less than the higher of (i) the closing price of the shares as stated in the daily quotation sheet issued by the HK Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the HK Stock Exchange for the five HK Stock Exchange business days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant.

The amount payable by a grantee on acceptance of a grant of options is HK$1.00.

As at 31 December 2011, no options had been granted under the Share Option Scheme.

## Arrangement for Directors to Acquire Shares or Debentures

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, fellow subsidiaries or subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

## 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.

## Substantial Shareholders

At 31 December 2011, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

| Name of shareholder | Beneficial owner | Interest of a controlled corporation | Investment manager | Total Interests in shares *(Note 1)* | Approximate percentage shareholding | *Note* |
|---|---|---|---|---|---|---|
| Alliance Holding | 610,915,527 | — | — | 610,915,527 (L) | 54.3% | *2* |
| Zheng Yu Long | 110,208,060 | 610,915,527 | — | 721,123,587 (L) | 64.10% | *2* |
| Zheng Yu Shuang | — | 610,915,527 | — | 610,915,527 (L) | 54.3% | *2* |
| Zheng Yu Huan | — | 610,915,527 | — | 610,915,527 (L) | 54.3% | *2* |
| Li Hung Kong | — | 610,915,527 | — | 610,915,527 (L) | 54.3% | *2* |
| COFCO Agriculture and Food Investment Limited | 72,000,000 | — | — | 72,000,000 (L) | 6.4% | *3* |
| | 72,000,000 | — | — | 72,000,000 (S) | 6.4% | |
| COFCO (BVI) Limited | — | 72,000,000 | — | 72,000,000 (L) | 6.4% | *3* |
| | — | 72,000,000 | — | 72,000,000 (S) | 6.4% | |
| COFCO Corporation | — | 72,000,000 | — | 72,000,000 (L) | 6.4% | *3* |
| | — | 72,000,000 | — | 72,000,000 (S) | 6.4% | |
| Pacific Alliance Asia Opportunity Fund L.P. | 88,188,000 | — | — | 88,188,000 (L) | 7.83% | *4* |
| | — | 88,300,000 | — | 88,300,000 (S) | 7.84% | |
| Pacific Alliance Group Asset Management Limited | — | — | 88,188,000 | 88,188,000 (L) | 7.83% | *4* |
| | — | — | 88,300,000 | 88,300,000 (S) | 7.84% | |
| Pacific Alliance Group Limited | — | 88,188,000 | — | 88,188,000 (L) | 7.83% | *4* |
| | — | 88,300,000 | — | 88,300,000 (S) | 7.84% | |
| Pacific Alliance Investment Management Limited | — | 88,188,000 | — | 88,188,000 (L) | 7.83% | *4* |
| | — | 88,300,000 | — | 88,300,000 (S) | 7.84% | |
| PAG Holdings Limited | — | 88,188,000 | — | 88,188,000 (L) | 7.83% | *4* |
| | — | 88,300,000 | — | 88,300,000 (S) | 7.84% | |

*Notes:*

(1) The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.

(2) The 610,915,527 Shares are beneficially owned by Alliance Holding, a company which is owned as to 28% by each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and as to 16% by Li Hung Kong. Accordingly, each of Zheng Yu Long, Zheng Yu Shuang, Zheng Yu Huan and Li Hung Kong is deemed to be interested in the Shares held by Alliance Holding for the purpose of the SFO.

(3) COFCO Agriculture and Food Investment Limited is wholly owned by COFCO (BVI) Limited, which is in turn wholly owned by COFCO Corporation. Accordingly, each of COFCO (BVI) Limited and COFCO Corporation is deemed to be interested in the Shares held by COFCO Agriculture and Food Investment Limited for the purpose of the SFO.

(4) Pacific Alliance Group Asset Management Limited is the general partner of Pacific Alliance Asia Opportunity Fund L.P.. Pacific Alliance Investment Management Limited is the investment manager of Pacific Alliance Asia Opportunity Fund L.P.. Pacific Alliance Investment Management Limited is a subsidiary of Pacific Alliance Group Limited, which in turns is a subsidiary of PAG Holdings Limited. Accordingly, each of Pacific Alliance Group Asset Management Limited, Pacific Alliance Investment Management Limited, Pacific Alliance Group Limited and PAG Holdings Limited is deemed to be interested in the interests of Pacific Alliance Asia Opportunity Fund L.P. for the purpose of the SFO. Pacific Alliance Asia Opportunity Fund L.P. is wholly owned by PA Marco Opportunity IX Limited, which holds a short position in the shares.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2011.

## Connected Transactions

Neither the Group nor the Company has any connected transactions and/or continuing connected transactions as defined under Chapter 14A of the Listing Rules during the year under review.

## Purchase, Sale or Redemption of the Company's Shares

The Company has not redeemed any of its securities during the year ended 31 December 2011, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities during the year.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Emolument Policy

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the market rates, workload and responsibilities and general economic situation.

## Litigation and Arbitration

As at the date of this report, there was no any litigation and arbitration for the Group.

## Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the period ended 31 December 2011 since the Listing.

## Major Customers and Suppliers

The Group's largest customer and five largest customers accounted for approximately 3.5% and 11.0% respectively of the Group's total turnover for the year.

The Group's largest supplier and five largest suppliers accounted for approximately 6.8% and 19.2% respectively of the Group's total purchases for the year.

According to the understanding of the Directors, none of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interests in the five largest customers or suppliers at any time during the year.

## Auditor

The consolidated financial statements for the year ended 31 December 2011 have been audited by PricewaterhouseCoopers. PricewaterhouseCoopers will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint PricewaterhouseCoopers as auditor of the Company.

On behalf of the Board
**China Lifestyle Food and Beverages Group Limited**

**Zheng Yu Long**
*Chairman*

Hong Kong, 29 March 2012

# Independent Auditor's Report

羅兵咸永道

**TO THE SHAREHOLDERS OF**
**CHINA LIFESTYLE FOOD AND BEVERAGES GROUP LIMITED**
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Lifestyle Food and Beverages Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 76, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888,* www.pwchk.com

羅兵咸永道

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Other Matters

This report, including the opinion, has been prepared for and only for you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 29 March 2012

# Consolidated Statement of Comprehensive Income

*For the year ended 31 December 2011*

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Sales | 6 | **1,279,712** | 931,680 |
| Cost of sales | 8 | **(767,213)** | (589,682) |
| Gross profit | | **512,499** | 341,998 |
| Other income | 7 | **2,615** | 1,573 |
| Selling and distribution expenses | 8 | **(169,241)** | (134,790) |
| Administrative expenses | 8 | **(56,470)** | (44,854) |
| Other (losses)/gains, net | 9 | **(4,320)** | 2,314 |
| Operating profit | | **285,083** | 166,241 |
| Finance costs | 11 | **(8,757)** | (3,518) |
| Provision for impairment of loans to an associated company | 19 | **—** | (1,778) |
| Share of loss of a jointly controlled entity | 20 | **—** | (432) |
| Gain on disposal of investment in a jointly controlled entity | 20 | **—** | 344 |
| Profit before income tax | | **276,326** | 160,857 |
| Income tax expense | 12 | **(54,630)** | (13,019) |
| Profit and total comprehensive income for the year | | **221,696** | 147,838 |
| Earnings per share attributable to equity holders of the Company (RMB per share) | 13 | | |
| — Basic | | **0.25** | 0.18 |
| — Diluted | | **0.25** | 0.18 |

Details of dividends to equity holders of the Company are set out in Note 14.

The notes on pages 37 to 76 are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

*As at 31 December 2011*

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | *15* | **154,239** | 110,600 |
| Property, plant and equipment | *16* | **778,378** | 551,675 |
| Deposits for property, plant and equipment | *17* | **67,438** | 26,095 |
| Interests in an associated company | *19* | **—** | — |
| Deferred income tax assets | *21* | **3,728** | 2,784 |
| | | **1,003,783** | 691,154 |
| **Current assets** | | | |
| Inventories | *22* | **80,134** | 76,860 |
| Trade receivables | *23* | **243,330** | 147,615 |
| Prepayments and other receivables | *24* | **18,102** | 31,968 |
| Pledged bank deposits | *25* | **18,010** | 27,904 |
| Cash and cash equivalents | *26* | **521,949** | 18,236 |
| | | **881,525** | 302,583 |
| **Total assets** | | **1,885,308** | 993,737 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | *29* | **403,984** | 205,644 |
| Share premium | *29* | **550,787** | 151,230 |
| Other reserves | *30* | **(1,739)** | (26,435) |
| Retained earnings | | **480,263** | 323,263 |
| **Total equity** | | **1,433,295** | 653,702 |

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liability** | | | |
| Deferred income tax liabilities | *21* | **9,245** | 7,011 |
| **Current liabilities** | | | |
| Trade and other payables | *27* | **273,830** | 229,684 |
| Borrowings | *28* | **157,000** | 92,000 |
| Current income tax liabilities | | **11,938** | 11,340 |
| | | **442,768** | 333,024 |
| **Total liabilities** | | **452,013** | 340,035 |
| **Total equity and liabilities** | | **1,885,308** | 993,737 |
| **Net current assets/(liabilities)** | | **438,757** | (30,441) |
| **Total assets less current liabilities** | | **1,442,540** | 660,713 |

**Zheng Yu Long**
*Director*

**Zheng Yu Shuang**
*Director*

The notes on pages 37 to 76 are an integral part of these consolidated financial statements.

# Balance Sheet

*As at 31 December 2011*

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | *18* | **134,206** | 134,206 |
| Loans to subsidiaries | *18* | **545,467** | 251,956 |
| | | **679,673** | 386,162 |
| **Current assets** | | | |
| Amounts due from subsidiaries | *18* | **361,276** | — |
| Prepayments and other receivables | *24* | **8,117** | 75 |
| Cash and cash equivalents | *26* | **5,686** | 924 |
| | | **375,079** | 999 |
| **Total assets** | | **1,054,752** | 387,161 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | *29* | **403,984** | 205,644 |
| Share premium | *29* | **550,787** | 151,230 |
| Retained earnings | *31* | **74,352** | 24,205 |
| **Total equity** | | **1,029,123** | 381,079 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Other payables | *27* | **25,629** | 6,082 |
| **Total liabilities** | | **25,629** | 6,082 |
| **Total equity and liabilities** | | **1,054,752** | 387,161 |
| **Net current assets/(liabilities)** | | **349,450** | (5,083) |
| **Total assets less current liabilities** | | **1,029,123** | 381,079 |

**Zheng Yu Long**
*Director*

**Zheng Yu Shuang**
*Director*

The notes on pages 37 to 76 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2011*

| | Note | Share capital RMB'000 | Share premium RMB'000 | Merger reserve RMB'000 | Statutory reserves RMB'000 | Currency translation reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2010 | | 205,644 | 151,230 | (87,600) | 54,003 | (41) | 259,278 | 582,514 |
| Profit and total comprehensive income for the year | | — | — | — | — | — | 147,838 | 147,838 |
| Transfer to statutory reserves | *30(b)* | — | — | — | 7,203 | — | (7,203) | — |
| Dividends | *14* | — | — | — | — | — | (76,650) | (76,650) |
| Balance at 31 December 2010 | | 205,644 | 151,230 | (87,600) | 61,206 | (41) | 323,263 | 653,702 |
| Balance at 1 January 2011 | | **205,644** | **151,230** | **(87,600)** | **61,206** | **(41)** | **323,263** | **653,702** |
| Profit and total comprehensive income for the year | | — | — | — | — | — | **221,696** | **221,696** |
| Capitalisation issue | | **112,221** | **(112,221)** | — | — | — | — | — |
| Issue of shares | | **86,119** | **540,251** | — | — | — | — | **626,370** |
| Share issuance costs | | — | **(28,473)** | — | — | — | — | **(28,473)** |
| Transfer to statutory reserves | *30(b)* | — | — | — | **24,696** | — | **(24,696)** | — |
| Dividends | *14* | — | — | — | — | — | **(40,000)** | **(40,000)** |
| Balance at 31 December 2011 | | **403,984** | **550,787** | **(87,600)** | **85,902** | **(41)** | **480,263** | **1,433,295** |

The notes on pages 37 to 76 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2011*

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | *32* | **286,450** | 195,023 |
| Income tax paid | | **(52,742)** | (29,528) |
| **Net cash generated from operating activities** | | **233,708** | 165,495 |
| **Cash flows from investing activities** | | | |
| Purchase of land use rights | | **(46,800)** | — |
| Purchase of property, plant and equipment | | **(247,683)** | (78,229) |
| Deposits paid for property, plant and equipment | | **(67,438)** | (26,095) |
| Proceeds from disposal of property, plant and equipment | | **214** | 40 |
| Proceeds from disposal of investment in a jointly controlled entity | | **—** | 2,535 |
| Interest received | | **1,147** | 530 |
| **Net cash used in investing activities** | | **(360,560)** | (101,219) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **157,000** | 92,000 |
| Repayments of borrowings | | **(92,000)** | (57,500) |
| Decrease/(increase) in pledged bank deposits | | **9,894** | (11,251) |
| Proceeds from issuance of shares, net of issuance costs | | **139,130** | — |
| Proceeds from issuance of shares pursuant to the Global Offering, net of issuance costs | | **465,298** | — |
| Dividends paid | | **(40,000)** | (76,650) |
| Interest paid | | **(8,757)** | (3,518) |
| **Net cash generated from/(used in) financing activities** | | **630,565** | (56,919) |
| **Net increase in cash and cash equivalents** | | **503,713** | 7,357 |
| Cash and cash equivalents at the beginning of the year | | **18,236** | 10,879 |
| **Cash and cash equivalents at the end of the year** | | **521,949** | 18,236 |

The notes on pages 37 to 76 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1 General information

China Lifestyle Food and Beverages Group Limited (the "Company") was incorporated in Bermuda on 4 May 2004 and domiciled in Bermuda. The Company's immediate and ultimate holding company is Alliance Food and Beverages (Holding) Company Limited, a company incorporated in the British Virgin Islands ("BVI"). The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Wuli Industrial Area, Jinjiang, Fujian, the People's Republic of China ("PRC") (中國福建省晉江市五里工業園區).

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the manufacture and sale of food and beverages products.

During the year, the Company completed its initial public offering on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company's shares were listed on the Stock Exchange on 9 December 2011.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 29 March 2012.

## 2 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

### (a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for accounting periods beginning on or after 1 January 2011. The adoption of these new standards and amendments to standards does not have any significant impact to the results and financial position of the Group.

| | |
|---|---|
| IFRSs (Amendment) | Improvements to IFRSs 2010 |
| IAS 24 (Revised) | Related party disclosure |
| IAS 32 (Amendment) | Classification of right issues |
| IFRIC — Int 14 (Amendment) | Prepayments of a minimum funding requirement |
| IFRIC — Int 19 | Extinguishing financial liabilities with equity instruments |

## 2 Basis of preparation (continued)

### (b) New standards, amendments to standards and interpretations that have been issued but are not effective

The following new standards, amendments to standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2012 and which the Group has not early adopted.

| | |
|---|---|
| IAS 1 (Amendment) | Presentation of financial statements[2] |
| IAS 12 (Amendment) | Deferred tax: recovery of underlying assets[1] |
| IAS 19 (Amendment) | Employee benefits[2] |
| IAS 27 (2011) | Separate financial statements[2] |
| IAS 28 (2011) | Investments in associates and joint ventures[2] |
| IAS 32 (Amendment) | Financial instruments: Presentation — offsetting financial assets and financial liabilities[3] |
| IFRS 1 (Amendment) | Severe hyperinflation and removal of fixed dates for first-time adopters[1] |
| IFRS 7 (Amendment) | Disclosures — transfers of financial assets[1] |
| IFRS 7 and IFRS 9 (Amendments) | Mandatory effective date and transition disclosures[4] |
| IFRS 9 | Financial instruments[4] |
| IFRS 10 | Consolidated financial statements[2] |
| IFRS 11 | Joint arrangements[2] |
| IFRS 12 | Disclosure of interests in other entities[2] |
| IFRS 13 | Fair value measurement[2] |
| IFRIC — Int 20 | Stripping costs in the production phase of a surface mine[2] |

[1] Effective for the Group for annual periods beginning on or after 1 January 2012

[2] Effective for the Group for annual periods beginning on or after 1 January 2013

[3] Effective for the Group for annual periods beginning on or after 1 January 2014

[4] Effective for the Group for annual periods beginning on or after 1 January 2015

The Group is currently assessing the impact of the adoption of the above new standards, amendments to standards and interpretations and does not expect there will be any significant impact to the results and financial position of the Group.

## 3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 3.1 Consolidation

#### *(a) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

All business combinations, if any, are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the statement of comprehensive income.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## 3 Summary of significant accounting policies (continued)

### 3.1 Consolidation (continued)

*(b) An associated company and a jointly controlled entity*

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A jointly controlled entity is an entity over which the Group has contractual arrangements to jointly share the control over the economic activity of the entity with one or more parties.

The Group's interests in an associated company and a jointly controlled entity are accounted for using the equity method of accounting and are initially recognised at cost and subsequently net of any accumulated impairment losses (Note 3.6).

The Group's share of its associated company or jointly controlled entity's post-acquisition profits or losses is recognised in the statement of comprehensive income and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted to the carrying amount of the investments. When the Group's share of losses in an associated company or a jointly controlled entity equals or exceeds its interests in the associated company or the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company or the jointly controlled entity.

Unrealised gains on transactions between the Group and its associated company and jointly controlled entity are eliminated to the extent of the Group's interests in the associated company and the jointly controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of an associated company and a jointly controlled entity have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Dilution gains and losses arising in investments in an associated company or a jointly controlled entity are recognised in the statement of comprehensive income.

### 3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

## 3 Summary of significant accounting policies (continued)

### 3.3 Foreign currency translation

#### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses are presented in the statement of comprehensive income within "other (losses)/ gains, net".

#### *(c) Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

On the disposal of a foreign operation (that is, 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, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associated company that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

# 3 Summary of significant accounting policies (continued)

## 3.4 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

| | **Useful lives** |
|---|---|
| Buildings | 20 years |
| Leasehold improvements | 5 years |
| Plant and equipment | 5–10 years |
| Motor vehicles | 5 years |

Construction in progress represents costs incurred in the construction of property, plant and equipment and other tangible assets. Costs comprise direct and indirect costs of construction, including borrowing costs incurred during the period of construction.

Construction in progress is transferred to property, plant and equipment when it is ready for its intended use. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are ready for its intended use. When the assets concerned are brought to use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

## 3.5 Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of leases.

## 3 Summary of significant accounting policies (continued)

### 3.6 Impairment of investments in subsidiaries, an associated company, a jointly controlled entity and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 3.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 3.8 Financial assets

#### *3.8.1 Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the Group's financial assets at initial recognition.

*(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables include trade and other receivables, bank deposits, and loans to an associated company in the consolidated balance sheet.

*(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period.

The Group did not hold any significant financial assets at fair value through profit or loss and available-for-sale financial assets.

## 3 Summary of significant accounting policies (continued)

### 3.8 Financial assets (continued)

#### *3.8.2 Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category, if any, are presented in the statement of comprehensive income within "other (losses)/gains, net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

#### *3.8.3 Impairment of financial assets*

##### *(a) Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

# 3 Summary of significant accounting policies (continued)

## 3.8 Financial assets (continued)

### 3.8.3 Impairment of financial assets (continued)

#### (a) Assets carried at amortised cost (continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

#### (b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

Impairment testing of the investments in subsidiaries, an associated company or a jointly controlled entity is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary, associated company or jointly controlled entity in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

## 3.9 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

## 3 Summary of significant accounting policies (continued)

### 3.10 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, less bank overdrafts and pledged deposits. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

### 3.11 Share capital

Ordinary shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

### 3.12 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 3.13 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

## 3 Summary of significant accounting policies (continued)

### 3.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, associated company and jointly controlled entity operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the relevant tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated company and jointly controlled entity, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 3.15 Employee benefits

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as social security plans in the PRC, and the Group has no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods. The Group's contributions to defined contribution plans are recognised in the financial year to which they relate.

## 3 Summary of significant accounting policies (continued)

### 3.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 3.17 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

### 3.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

*(a) Sale of goods*

Revenue from sale of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

It is the Group's policy to sell its products to the customers with a right to return due to quality issues caused by the Group. Accumulated experience is used to estimate and provide for such returns at the time of sale.

## 3 Summary of significant accounting policies (continued)

### 3.18 Revenue recognition (continued)

#### *(b) Interest income*

Interest income is recognised on a time proportion basis using the effective interest method.

#### *(c) Rental income*

Rental income under operating leases (net of any incentives given to the lessees) is recognised on a straight-line basis over the lease periods.

### 3.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 3.20 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

## 4 Financial risk management

### 4.1 Financial risk factors

The Group's activities expose it to market risks (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance. The board of directors is responsible for setting the objectives and underlying principles of financial risk management for the Group.

#### *(a) Market risk*

##### *(i) Currency risk*

The Group's dominant operations are in the PRC and most of the transactions are denominated in RMB. Entities in the Group sometimes transact in currencies other than RMB. The Group is exposed to currency risk arising from various currency exposures, primarily with respect to the Hong Kong Dollar ("HKD").

Currency risk arises when transactions are denominated in foreign currencies.

# 4 Financial risk management (continued)

## 4.1 Financial risk factors (continued)

### *(a) Market risk (continued)*

#### *(i) Currency risk (continued)*

The Group's currency exposure as at 31 December 2011 and 2010 is as follows:

| | RMB<br>RMB'000 | HKD<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| At 31 December 2011 | | | |
| **Financial assets** | | | |
| Cash and cash equivalents | **379,804** | **142,145** | **521,949** |
| Pledged bank deposits | **18,010** | **—** | **18,010** |
| Trade and other receivables | **244,017** | **8,026** | **252,043** |
| **Financial liabilities** | | | |
| Trade and other payables | **(230,220)** | **(20,571)** | **(250,791)** |
| Borrowings | **(157,000)** | **—** | **(157,000)** |
| **Net financial assets** | **254,611** | **129,600** | **384,211** |
| **Currency exposure** | | **129,600** | **129,600** |
| At 31 December 2010 | | | |
| **Financial assets** | | | |
| Cash and cash equivalents | 17,130 | 1,106 | 18,236 |
| Pledged bank deposits | 27,904 | — | 27,904 |
| Trade and other receivables | 149,420 | 102 | 149,522 |
| **Financial liabilities** | | | |
| Trade and other payables | (209,585) | (2,423) | (212,008) |
| Borrowings | (92,000) | — | (92,000) |
| **Net financial liabilities** | (107,131) | (1,215) | (108,346) |
| **Currency exposure** | | (1,215) | (1,215) |

# 4 Financial risk management (continued)

## 4.1 Financial risk factors (continued)

### *(a) Market risk (continued)*

#### *(i) Currency risk (continued)*

The Company's currency exposure as at 31 December 2011 and 2010 is as follows:

| | **RMB**<br>RMB'000 | **HKD**<br>RMB'000 | **Total**<br>RMB'000 |
|---|---|---|---|
| At 31 December 2011 | | | |
| **Financial assets** | | | |
| Cash and cash equivalents | **—** | **5,686** | **5,686** |
| Amounts due from subsidiaries | **301,276** | **60,000** | **361,276** |
| Other receivables | **—** | **8,000** | **8,000** |
| **Financial liabilities** | | | |
| Other payables | **(5,864)** | **(19,765)** | **(25,629)** |
| **Net financial assets** | **295,412** | **53,921** | **349,333** |
| **Currency exposure** | | **53,921** | **53,921** |
| At 31 December 2010 | | | |
| **Financial assets** | | | |
| Cash and cash equivalents | — | 924 | 924 |
| **Financial liabilities** | | | |
| Other payables | (4,282) | (1,800) | (6,082) |
| **Net financial liabilities** | (4,282) | (876) | (5,158) |
| **Currency exposure** | | (876) | (876) |

# 4 Financial risk management (continued)

## 4.1 Financial risk factors (continued)

### (a) Market risk (continued)

#### (i) Currency risk (continued)

If HKD changes against the RMB by 5% with all other variables including tax rate being held constant, the effects arising from the net financial assets/liabilities position will be as follows:

| | 2011<br>Increase/<br>(decrease)<br>Profit after tax<br>RMB'000 | 2010<br>Increase/<br>(decrease)<br>Profit after tax<br>RMB'000 |
|---|---|---|
| Group | | |
| HKD against RMB | | |
| — strengthened | **6,480** | (61) |
| — weakened | **(6,480)** | 61 |
| Company | | |
| HKD against RMB | | |
| — strengthened | **2,696** | (44) |
| — weakened | **(2,696)** | 44 |

#### (ii) Cash flow and fair value interest rate risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's exposure to interest rate risk arises mainly from its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, while borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 December 2011, if the interest rate on all borrowings had been 100 basis points higher/lower with all other variables held constant, pretax profit for the year ended 31 December 2011 would have been RMB1,480,000 lower/higher (2010: nil), mainly as a result of higher/lower interest expense on borrowings with floating interest rates.

The Group regularly monitors its interest rate risk to ensure there are no undue exposures to significant interest rate movements.

# 4 Financial risk management (continued)

## 4.1 Financial risk factors (continued)

### *(b) Credit risk*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

The maximum exposure to credit risk for each class of financial assets is the carrying amount of that class of financial assets presented on the balance sheet. The Group's and the Company's major classes of financial assets are bank deposits, trade and other receivables, loans to an associated company and inter-company accounts with subsidiaries.

Trade receivables are substantially from distributors and key account agents with good collection track records with the Group. Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers. Management believes that no significant credit risk is inherent in the Group's trade receivables (see also Note 23). Bank deposits are mainly deposits with banks with good credit-ratings assigned by international credit-rating agencies.

### *(c) Liquidity risk*

The Group's and the Company's financial liabilities are all due within the next 12 months from the balance sheet date. The Group and the Company manage the liquidity risk by maintaining sufficient cash and banking facilities to enable them to meet their normal operating and capital commitments.

Based on the Group's history of its ability to obtain external financing, its anticipated cash inflows from operations in the coming year and its expected future working capital requirements, the directors are of the opinion that there are sufficient financial resources available to the Group at least in the coming twelve months to meet its liabilities as and when they fall due.

## 4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholders' value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares or obtain new borrowings. There is no specific requirement for the Group and the Company to maintain gearing ratio at certain level.

# 4 Financial risk management (continued)

## 4.3 Fair value estimation

As at 31 December 2010 and 2011, the Group and the Company did not have any financial assets or financial liabilities in the balance sheet which is measured at fair value. The carrying amounts of the Group's financial assets, including cash and cash equivalents, pledged bank deposits, trade and other receivables, loans to an associated company and amounts due from subsidiaries and the Group's financial liabilities, including trade and other payables and borrowings, approximate their fair values due to their short maturities. The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

# 5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

## (a) Estimated useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to competition within the industry. Management will increase the depreciation where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or assets that have been abandoned.

## (b) Current and deferred income taxes

The Group is subject to income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

## 6 Segment information

The Group is principally engaged in the manufacturing and sale of jelly products, confectionary products and other food and beverages products.

The chief operating decision-maker ("CODM") has been identified as the executive directors of the Company. CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

CODM considers the business by products and assesses the performance of the following operating segments:

i. Jelly products

ii. Confectionary products

iii. Other products

CODM assesses the performance of the operating segments based on measure of segment results. Finance costs, share of result of a jointly controlled entity, corporate income and expenses are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the financial statements.

Sales to external customers are after elimination of inter-segment sales. Sales between segments are carried out at mutually agreed terms. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated statement of comprehensive income.

During the year, none of the individual customer account for 10% or more of the Group's external revenue (2010: none). As at 31 December 2011 and 2010, substantially all of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC.

## 6 Segment information (continued)

| | Year ended 31 December 2011 | | | |
|---|---|---|---|---|
| | Jelly products RMB'000 | Confectionary products RMB'000 | Other products RMB'000 | Reportable segments Total RMB'000 |
| **Revenue** | | | | |
| Sales to external customers | 1,007,146 | 166,258 | 106,308 | 1,279,712 |
| Cost of sales | (594,439) | (101,074) | (71,700) | (767,213) |
| Gross profit | 412,707 | 65,184 | 34,608 | 512,499 |
| **Results of reportable segments** | 274,284 | 46,220 | 22,754 | 343,258 |

A reconciliation of results of reportable segments to profit for the year is as follows:

| | | | | |
|---|---|---|---|---|
| **Results of reportable segments** | | | | 343,258 |
| Corporate income | | | | 3,386 |
| Corporate expenses | | | | (61,561) |
| **Operating profit** | | | | 285,083 |
| Finance costs | | | | (8,757) |
| **Profit before income tax** | | | | 276,326 |
| Income tax expense | | | | (54,630) |
| **Profit for the year** | | | | 221,696 |
| Amortisation of land use rights | 3,161 | — | — | 3,161 |
| Depreciation of property, plant and equipment | 43,596 | — | 1,756 | 45,352 |

## 6 Segment information (continued)

| | Year ended 31 December 2010 | | | |
|---|---|---|---|---|
| | Jelly products RMB'000 | Confectionary products RMB'000 | Other products RMB'000 | Reportable segments Total RMB'000 |
| **Revenue** | | | | |
| Sales to external customers | 775,815 | 106,115 | 49,750 | 931,680 |
| Cost of sales | (477,199) | (73,636) | (38,847) | (589,682) |
| Gross profit | 298,616 | 32,479 | 10,903 | 341,998 |
| **Results of reportable segments** | 183,192 | 20,580 | 3,436 | 207,208 |

A reconciliation of results of reportable segments to profit for the year is as follows:

| | | | | |
|---|---|---|---|---|
| **Results of reportable segments** | | | | 207,208 |
| Corporate income | | | | 4,493 |
| Corporate expenses | | | | (45,460) |
| **Operating profit** | | | | 166,241 |
| Finance costs | | | | (3,518) |
| Provision for impairment of loans to an associated company | | | | (1,778) |
| Share of loss of a jointly controlled entity | | | | (432) |
| Gain on disposal of investment in a jointly controlled entity | | | | 344 |
| **Profit before income tax** | | | | 160,857 |
| Income tax expense | | | | (13,019) |
| **Profit for the year** | | | | 147,838 |
| Amortisation of land use rights | 2,380 | — | — | 2,380 |
| Depreciation of property, plant and equipment | 36,367 | — | 1,280 | 37,647 |

## 7 Other income

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Rental income | **876** | 1,043 |
| Interest income on bank deposits | **1,147** | 530 |
| Government subsidy | **592** | — |
| | **2,615** | 1,573 |

## 8 Expenses by nature

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Purchases of raw materials, finished goods and consumables | **688,596** | 534,142 |
| Changes in inventories of raw materials and finished goods | **(3,274)** | (15,363) |
| Advertising and promotion expenses | **96,404** | 77,675 |
| Employee benefit expenses (including directors' emoluments) (Note 10) | **82,981** | 73,043 |
| Depreciation of property, plant and equipment (Note 16) | **45,352** | 37,647 |
| Freight and transportation expenses | **41,938** | 35,681 |
| Share issuance costs | **3,383** | — |
| Amortisation of land use rights (Note 15) | **3,161** | 2,380 |
| Auditor's remuneration | **1,800** | 1,800 |
| Operating leases rentals | **370** | 345 |
| Other expenses | **32,213** | 21,976 |
| Total cost of sales, selling and distribution and administrative expenses | **992,924** | 769,326 |

## 9 Other (losses)/gains, net

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Gain on sales of raw materials and scrap materials | **771** | 2,920 |
| Loss on disposal of property, plant and equipment | **(1,509)** | (375) |
| Exchange losses, net | **(3,582)** | (231) |
| | **(4,320)** | 2,314 |

## 10 Employee benefit expenses (including directors' emoluments)

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Salaries and bonuses | **74,750** | 67,387 |
| Employer's contribution to defined contribution plans | **8,231** | 5,656 |
| | **82,981** | 73,043 |

### (a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2011 is set out below:

| Name of directors | Fee RMB'000 | Salaries RMB'000 | Other benefits RMB'000 | Discretionary bonuses [3] RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Mr. Zheng Yu Long | — | **800** | — | — | **800** |
| Mr. Zheng Yu Shuang | — | **800** | — | — | **800** |
| Mr. Zheng Yu Huan | — | **800** | — | — | **800** |
| **Non-executive directors** | | | | | |
| Mr. Li Hung Kong | **10** | — | — | — | **10** |
| Mr. Li Gang [1] | **10** | — | — | — | **10** |
| **Independent non-executive directors** | | | | | |
| Mr. Li Zhi Hai [2] | **10** | — | — | — | **10** |
| Ms. Sun Kam Ching [2] | **10** | — | — | — | **10** |
| Mr. Chung Yau Tong [2] | **10** | — | — | — | **10** |
| | **50** | **2,400** | — | — | **2,450** |

(1) Appointed on 24 October 2011

(2) Appointed on 23 September 2011

(3) During the year ended 31 December 2011, the executive directors have waived their entitlement to discretionary bonuses.

## 10 Employee benefit expenses (including directors' emoluments) (continued)

### (a) Directors' emoluments (continued)

The remuneration of every director for the year ended 31 December 2010 is set out below:

| Name of directors | Fee RMB'000 | Salaries RMB'000 | Other benefits RMB'000 | Discretionary bonuses [4] RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Mr. Zheng Yu Long | — | 800 | — | — | 800 |
| Mr. Zheng Yu Shuang | — | 800 | — | — | 800 |
| Mr. Zheng Yu Huan | — | 800 | — | — | 800 |
| **Non-executive director** | | | | | |
| Mr. Li Hung Kong | — | — | — | — | — |
| **Independent non-executive directors** | | | | | |
| Dr. Wang Kai Yuen [1] | 117 | — | — | — | 117 |
| Mr. Tan Soo Kiat [2] | 97 | — | — | — | 97 |
| Mr. Lam Ming Yung [3] | — | — | — | — | — |
| | 214 | 2,400 | — | — | 2,614 |

(1) Resigned on 18 October 2010

(2) Resigned on 31 May 2010

(3) Resigned on 17 November 2010

(4) During the year ended 31 December 2010, the executive directors have waived their entitlement to discretionary bonuses.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 3 (2010: 3) directors, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 (2010: 2) individuals during the year are as follows:

| | **2011 RMB'000** | 2010 RMB'000 |
|---|---|---|
| Salaries and bonuses | **2,232** | 944 |
| Employer's contribution to defined contribution plans | **14** | 13 |
| | **2,246** | 957 |

## 10 Employee benefit expenses (including directors' emoluments) (continued)

### (b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| Nil — HK$1,000,000 (equivalent to Nil — RMB815,000) | **1** | 2 |
| HK$2,000,001 — HK$2,500,000 (equivalent to RMB1,630,001 — RMB2,037,500) | **1** | — |

(c) During the year, no emoluments have been paid to the directors of Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 11 Finance costs

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| Interest expenses on bank borrowings | **8,757** | 3,518 |

## 12 Income tax expense

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| Current income tax — PRC | **53,340** | 32,007 |
| Overprovision in prior year | **—** | (24,492) |
| Deferred income tax (Note 21) | **1,290** | 5,504 |
| | **54,630** | 13,019 |

During the year, the Group did not have any assessable income in Bermuda, BVI and Hong Kong (2010: Nil).

The subsidiaries in the PRC are subject to income tax rate of 25% (2010: 25%) on their taxable profit during the year. One of the subsidiaries was granted full exemption from the PRC income tax for two years from their first profit-making year of operation, and followed by a 50% reduction in income tax rate for the next three years.

A subsidiary in Fujian province, PRC, was designated an New and Hi-Tech Enterprises ("高新技術企業") in October 2009 and has thus enjoyed a preferential income tax rate of 15% since 2010 and subject to review and renewal every three years.

## 12 Income tax expense (continued)

In addition, pursuant to Article 9 of Circular Caishui [2009] No.59 issued on 30 April 2009, which became effective retrospectively on 1 January 2008, a subsidiary under the full-exemption tax holiday period in 2008 and 2009 was subject to an income tax rate of 25% in 2008 and 2009. Consequently, a provision for income tax liability amounting to RMB21,400,000 was made in the year ended 31 December 2009. In 2010, the directors have sought clarification from the relevant PRC tax authorities on the tax position of the subsidiary and determined that the subsidiary can continue to enjoy the tax holiday till its expiry in 2012. As such, the subsidiary has written back the tax provision in 2010.

The income tax expense on profit differs from the amount that would arise using the PRC applicable income tax rate is as explained below:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Profit before income tax | **276,326** | 160,857 |
| Tax calculated at PRC applicable income tax rate | **69,082** | 40,214 |
| Effects of: | | |
| — Tax concession | **(24,943)** | (21,606) |
| — Different tax rates | **1,059** | 669 |
| — Income not subject to tax | **(255)** | (41) |
| — Expenses not deductible for tax purposes | **2,734** | 1,850 |
| — Withholding tax on unremitted profits | **6,680** | 17,193 |
| — Overprovision in prior year | **—** | (24,492) |
| — Others | **273** | (768) |
| Tax charge | **54,630** | 13,019 |

## 13 Earnings per share

### (a) Basic earnings per share

| | 2011 | 2010 |
|---|---|---|
| Net profit attributable to the equity holders of Company (RMB'000) | **221,696** | 147,838 |
| Weighted average number of ordinary shares outstanding for basic earnings per share ('000) | **898,041** | 828,000 |
| Basic earnings per share (RMB per share) | **0.25** | 0.18 |

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

The ordinary shares of 353,063,478 issued on 9 December 2011 related to the capitalisation issue as disclosed in Note 29(b) were deemed to have been issued at the beginning of the earliest period presented in the financial statements.

### (b) Diluted earnings per share

There were no potential dilutive ordinary shares outstanding during the years ended 31 December 2011 and 2010 and hence the diluted earnings per share is the same as basic earnings per share.

## 14 Dividends

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Final dividend, proposed, of (2011: RMB0.050; 2010: Nil) per share | **56,280** | — |
| Interim dividends, paid, of (2011: RMB0.079; 2010: RMB0.152) per share | **40,000** | 76,650 |

At a meeting held on 29 March 2012, the directors proposed a final dividend of RMB0.050 per share. The proposed dividends are not reflected as dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2012.

## 15 Land use rights

| | The Group | |
|---|---|---|
| | **2011<br>RMB'000** | 2010<br>RMB'000 |
| **Cost** | | |
| At 1 January | **119,020** | 119,020 |
| Additions | **46,800** | — |
| At 31 December | **165,820** | 119,020 |
| **Accumulated amortisation** | | |
| At 1 January | **8,420** | 6,040 |
| Amortisation | **3,161** | 2,380 |
| At 31 December | **11,581** | 8,420 |
| **Net book amount** | | |
| At 31 December | **154,239** | 110,600 |

The land use rights of the Group are outside Hong Kong and held on leases with remaining periods of between 40 to 50 years.

## 16 Property, plant and equipment

**The Group**

| | Buildings RMB'000 | Plant and equipment RMB'000 | Motor vehicles RMB'000 | Construction-in-progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2010** | | | | | |
| **Cost** | | | | | |
| At 1 January 2010 | 244,803 | 215,940 | 9,771 | 97,484 | 567,998 |
| Additions | 1,323 | 82,371 | 235 | 27,523 | 111,452 |
| Disposals | — | (850) | — | — | (850) |
| Transfer to/(from) | 125,007 | — | — | (125,007) | — |
| At 31 December 2010 | 371,133 | 297,461 | 10,006 | — | 678,600 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2010 | 28,488 | 55,058 | 6,167 | — | 89,713 |
| Depreciation charge | 13,829 | 22,586 | 1,232 | — | 37,647 |
| Disposals | — | (435) | — | — | (435) |
| At 31 December 2010 | 42,317 | 77,209 | 7,399 | — | 126,925 |
| **Net book value** | | | | | |
| At 31 December 2010 | 328,816 | 220,252 | 2,607 | — | 551,675 |
| **Year ended 31 December 2011** | | | | | |
| **Cost** | | | | | |
| At 1 January 2011 | **371,133** | **297,461** | **10,006** | **—** | **678,600** |
| Additions | **45,131** | **37,947** | **448** | **190,252** | **273,778** |
| Disposals | **—** | **(6,247)** | **—** | **—** | **(6,247)** |
| At 31 December 2011 | **416,264** | **329,161** | **10,454** | **190,252** | **946,131** |
| **Accumulated depreciation** | | | | | |
| At 1 January 2011 | **42,317** | **77,209** | **7,399** | **—** | **126,925** |
| Depreciation charge | **16,774** | **27,582** | **996** | **—** | **45,352** |
| Disposals | **—** | **(4,524)** | **—** | **—** | **(4,524)** |
| At 31 December 2011 | **59,091** | **100,267** | **8,395** | **—** | **167,753** |
| **Net book value** | | | | | |
| At 31 December 2011 | **357,173** | **228,894** | **2,059** | **190,252** | **778,378** |

## 17 Deposits for property, plant and equipment

The balance represents deposits paid for acquisition of machineries and equipment, and construction of production facilities.

## 18 Interests in subsidiaries

### (a) Investments in subsidiaries

| | The Company | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| Unlisted equity investments, at cost | **134,206** | 134,206 |

The following is a list of the principal subsidiaries at 31 December 2011:

| **Name** | **Country of business/ incorporation** | **Principal activities** | **Equity holding** |
|---|---|---|---|
| **Directly held** | | | |
| Timeluck International Limited | BVI | Investment holding | 100% |
| Labixiaoxin International Company Limited | BVI | Investment holding | 100% |
| Labixiaoxin Holdings Company Limited | Hong Kong | Investment holding | 100% |
| Labixiaoxin Investments Company Limited | Hong Kong | Investment holding | 100% |
| **Indirectly held** | | | |
| 蠟筆小新(福建)食品工業有限公司 Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd | PRC# | Manufacture and sale of food and beverages products | 100% |
| 蠟筆小新(四川)有限公司 Labixiaoxin (Sichuan) Co. Ltd. | PRC# | Manufacture and sale of food and beverages products | 100% |
| 蠟筆小新(安徽)有限公司 Labixiaoxin (Anhui) Co. Ltd. | PRC# | Manufacture and sale of food and beverages products | 100% |
| 蠟筆小新(天津)有限公司 Labixiaoxin (Tianjin) Co. Ltd. | PRC# | Manufacture and sale of food and beverages products | 100% |

# The companies are established as wholly foreign-owned enterprises in the PRC.

## 18 Interests in subsidiaries (continued)

### (b) Loans to/amounts due from subsidiaries

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| **Current** | | |
| Amounts due from subsidiaries | **361,276** | — |
| **Non-current** | | |
| Loans to subsidiaries | **550,303** | 256,792 |
| Provision for impairment | **(4,836)** | (4,836) |
| | **545,467** | 251,956 |

The amounts due from subsidiaries approximate their fair values.

Loans to subsidiaries are non-trade in nature and are stated at cost. These loans are unsecured, interest-free and have no fixed terms of repayment. These loans are regarded as equity contributions to the subsidiaries.

## 19 Interests in an associated company

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| **Investment in an associated company** | | |
| Beginning and end of the year | **—** | — |
| **Loans to an associated company** | | |
| Beginning of the year | **—** | 1,778 |
| Provision for impairment (note) | **—** | (1,778) |
| End of the year | **—** | — |

The Group's share of the results of the associated company, and its aggregated assets and liabilities, are as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| — Assets | **—** | 10,791 |
| — Liabilities | **—** | 6,153 |
| — Revenue | **—** | — |
| — Net loss | **—** | — |

## 19 Interests in an associated company (continued)

| Name | Place of incorporation | Particulars of issued share capital | % of attributable interest held indirectly 2011 | 2010 | Principal activities |
|---|---|---|---|---|---|
| Tianjin Super Lifestyle Food Development Company Ltd. | PRC | US$4,999,990 | **32%** | 32% | Manufacture and distribution of snack food in the PRC |

Note:

As at 31 December 2011 and 2010, the Group's investment in the associated company and loans to the associated company had been fully impaired.

Loans to the associated company were unsecured, interest free and had no fixed terms of repayment.

## 20 Interests in a jointly controlled entity

| | The Group 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Beginning of the year | — | 2,623 |
| Share of losses | — | (432) |
| Disposal (note) | — | (2,191) |
| End of the year | — | — |

| Name | Place of incorporation | Particulars of issued share capital | % of attributable interest held indirectly 2011 | 2010 | Principal activities |
|---|---|---|---|---|---|
| Coco (Fujian) Foods Company Ltd. | PRC | US$2,999,842 | — | — | Manufacture and distribution of snack food in the PRC |

Note:

In 2010, the jointly controlled entity was disposed to a third party for a consideration of RMB2,535,000 and a gain of RMB344,000 was recognised in the consolidated statement of comprehensive income.

## 21 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Movement in deferred income tax account is as follows:

| | The Group | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| **Deferred income tax assets** | | |
| Beginning of the year | **2,784** | 3,329 |
| Credited/(charged) to the statement of comprehensive income (Note 12) | **944** | (545) |
| End of the year | **3,728** | 2,784 |
| **Deferred income tax liabilities** | | |
| Beginning of the year | **7,011** | 2,052 |
| Charged to the statement of comprehensive income (Note 12) | **2,234** | 4,959 |
| End of the year | **9,245** | 7,011 |

At 31 December 2011, deferred income tax assets are recognised for accrued sales rebates, to the extent that realisation of the related tax benefits through future taxable profits is probable which are calculated in full on temporary differences under the liability method using principal tax rates ranging from 12.5% to 25% (2010: 12.5% to 25%).

Deferred income tax liabilities represented deferred tax effect on the withholding tax payable on the undistributed profits of certain PRC subsidiaries.

The amounts are shown on the consolidated balance sheet as follows:

| | The Group | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| Deferred income tax assets | | |
| — to be recovered within one year | **3,728** | 2,784 |
| Deferred income tax liabilities | | |
| — to be settled within one year | **9,245** | 4,444 |
| — to be settled after one year | **—** | 2,567 |
| | **9,245** | 7,011 |

## 21 Deferred income tax (continued)

According to the relevant PRC tax rules and regulations, dividend distribution out of profit earned by foreign-invested enterprises in the PRC after 1 January 2008 is subject to PRC corporate withholding income tax. During the year, withholding income tax was provided for the dividend distributed and the portion of the retained profits which will be distributed in the foreseeable future for the Group's PRC subsidiaries at a tax rate of 5% to 10%.

As at 31 December 2011, there are temporary differences relating to the undistributed profits of the Group's PRC subsidiaries amounted to RMB356,568,000 (2010: RMB178,753,000). Deferred income tax liabilities of RMB24,057,000 (2010: RMB10,865,000), have not been recognised in respect of the tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these PRC subsidiaries and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

## 22 Inventories

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Raw materials | **61,473** | 51,348 |
| Finished goods | **18,661** | 25,512 |
| | **80,134** | 76,860 |

The cost of inventories recognised as expense and included in cost of sales amounted to RMB685,322,000 (2010: RMB518,779,000).

## 23 Trade receivables

The Group's sales are generally on credit term ranging from 30 to 90 days. As at 31 December 2011, the aging analysis of trade receivables, based on invoice date, is as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Less than 30 days | **164,619** | 133,161 |
| 31 days–90 days | **72,771** | 14,454 |
| Over 90 days | **5,940** | — |
| | **243,330** | 147,615 |

For the trade receivables that are not past due nor impaired, the directors were of the opinion that no impairment provision was required as those customers did not have recent default history.

## 23 Trade receivables (continued)

As at 31 December 2011, trade receivables of RMB5,940,000 (2010: Nil) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The Group does not hold any collateral as security over these debtors. The ageing analysis of these receivables is as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Past due by less than 3 months but not impaired | **5,940** | — |

During the year, no trade receivables were impaired (2010: Nil). As at 31 December 2011 and 2010, no trade receivables are considered to be impaired.

The carrying amounts of trade receivables approximate their fair values.

## 24 Prepayments and other receivables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Prepayment for purchase of raw materials | **4,905** | 12,695 | **—** | — |
| Prepayment for advertising expenses | **4,347** | 7,200 | **—** | — |
| Receivable in relation to the Global Offering | **8,000** | — | **8,000** | — |
| Value-added tax recoverable | **—** | 10,091 | **—** | — |
| Other prepayments | **137** | 75 | **117** | 75 |
| Sundry assets | **713** | 1,907 | **—** | — |
| | **18,102** | 31,968 | **8,117** | 75 |

The carrying amounts of prepayments and other receivables approximate their fair values.

## 25 Pledged bank deposits

As at 31 December 2011 and 2010, pledged bank deposits of the Group were with initial terms of over three months and pledged to banks as security for bills payable (Note 27).

The weighted average effective interest rate of these bank deposits as at 31 December 2011 was 0.50% (2010: 0.36%) per annum.

The carrying amounts of pledged bank deposits approximate their fair values.

## 26 Cash and cash equivalents

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 | **2011 RMB'000** | 2010 RMB'000 |
| Cash and bank balances | **220,673** | 18,236 | **5,686** | 924 |
| Short-term bank deposits | **301,276** | — | **—** | — |
| | **521,949** | 18,236 | **5,686** | 924 |

The weighted average effective interest rate of the Group's short-term bank deposits as at 31 December 2011 was 1.70% (2010: Nil) per annum.

The carrying amounts of cash and cash equivalents approximate their fair values.

## 27 Trade and other payables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 | **2011 RMB'000** | 2010 RMB'000 |
| Trade payables | **131,911** | 114,509 | **—** | — |
| Bills payable | **51,475** | 67,548 | **—** | — |
| Trade and bills payables | **183,386** | 182,057 | **—** | — |
| Accrued sales rebates | **23,039** | 17,676 | **—** | — |
| Other accrued expenses | **20,937** | 17,749 | **1,800** | 1,800 |
| Directors' fees and emoluments payable | **5,915** | 4,282 | **5,915** | 4,282 |
| Payables of share issuance costs | **17,914** | — | **17,914** | — |
| Sundry creditors | **22,639** | 7,920 | **—** | — |
| | **273,830** | 229,684 | **25,629** | 6,082 |

The credit periods granted by suppliers generally range from 30 to 60 days. As at 31 December 2011, the aging analysis of trade payables is as follows:

| | The Group | |
|---|---|---|
| | **2011 RMB'000** | 2010 RMB'000 |
| Less than 30 days | **105,459** | 92,329 |
| 31 days–90 days | **26,452** | 20,624 |
| Over 90 days | **—** | 1,556 |
| | **131,911** | 114,509 |

## 27 Trade and other payables (continued)

Bills payable of the Group amounting to RMB51,475,000 (2010: RMB67,548,000) were secured by pledged bank deposits of RMB18,010,000 (2010: RMB27,904,000) (Note 25).

The bills payable were with average maturity period of within six months.

The carrying amounts of trade and other payables approximate their fair values.

## 28 Borrowings

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Short-term bank borrowings | **157,000** | 92,000 |

At 31 December 2010, the short-term bank borrowings were secured by corporate guarantee from a third party and guaranteed by certain directors and a subsidiary of the Group. The corporate guarantee from the third party and personal guarantees of the directors were subsequently released in March 2011. At 31 December 2011, the short-term bank borrowings were guaranteed by subsidiaries of the Group.

The weighted average effective interest rate of the short-term bank borrowings as at 31 December 2011 was 7.23% (2010: 5.54%) per annum.

Certain short-term borrowing contracts of a subsidiary with a bank contain covenant clauses which require the subsidiary to meet stipulated financial ratios. As at 31 December 2010, the subsidiary did not meet certain of the stipulated financial ratios. Accordingly, the bank was contractually entitled to request early repayment of the outstanding amount of RMB43,000,000. However, the bank did not request for early repayment for the bank borrowings of RMB43,000,000 as at 31 December 2010, and these borrowings were repaid on their respective maturity dates. Subsequent to 31 December 2010, the subsidiary had obtained a waiver in respect of the aforementioned covenant requirements for the bank borrowings of RMB43,000,000 as at 31 December 2010.

During the year ended 31 December 2011, the subsidiary has obtained new short-term bank borrowings of RMB32,000,000 from the same bank which also require the subsidiary to meet stipulated financial ratios. The subsidiary did not meet one of the stipulated financial ratios during the year. However, the bank did not request for early repayment for these bank borrowings, and these borrowings were repaid on their respective maturity dates during the year.

In addition, this subsidiary has a short-term bank borrowing from another bank amounting to RMB 30,000,000 as at 31 December 2010. The borrowing contract for this short-term borrowing contains certain cross-default clauses. Due to the breach of the aforementioned bank covenants, this bank was also entitled to request early repayment of the outstanding amount of this loan before its maturity. The bank did not request for early repayment and the loan was subsequently repaid on the maturity date during the year.

As at 31 December 2011, the Group was in compliance with the covenant clauses of the bank borrowing contracts.

The carrying amounts of the short-term bank borrowings approximate their fair values.

## 29 Share capital and share premium

### Authorised share capital

Pursuant to a shareholders' resolution passed on 23 September 2011, the authorised share capital of the Company was increased from US$50,000,000 to US$250,000,000 by the creation of 4,000,000,000 new shares with a par value of US$0.05 per share.

### Issued share capital

| | Number of shares | Amount | | |
|---|---|---|---|---|
| | Issued share capital | Share capital RMB'000 | Share premium RMB'000 | Total share capital and share premium RMB'000 |
| **The Company** | | | | |
| As at 1 January 2010, 31 December 2010 and 1 January 2011 | 503,181,600 | 205,644 | 151,230 | 356,874 |
| Issue of new shares (Note a) | 43,754,922 | 14,412 | 124,718 | 139,130 |
| Capitalisation of shares (Note b) | 353,063,478 | 112,221 | (112,221) | — |
| Issue of new shares pursuant to the Global Offering (Note c) | 225,600,000 | 71,707 | 415,533 | 487,240 |
| Share issuance costs (Note d) | — | — | (28,473) | (28,473) |
| As at 31 December 2011 | 1,125,600,000 | 403,984 | 550,787 | 954,771 |

Note:

(a) Pursuant to a directors' resolution passed on 21 March 2011, the Company issued 43,754,922 new shares at par value of US$0.05 each to COFCO Agriculture and Food Investment Limited for an aggregate cash consideration of RMB139,130,000. The amount is credited to share capital and share premium accounts. These shares rank pari passu in all respects with the existing shares.

(b) On 9 December 2011, pursuant to a shareholder's resolution passed on 25 November 2011, as a result of the listing of the Company, a total of 353,063,478 shares of the Company were allotted and issued to the shareholders as at the date of the resolution on a pro rata basis. The amount was paid up in full by applying an amount of US$17,653,000 (equivalent to approximately RMB112,221,000) standing to the credit of the share premium account of the Company.

(c) On 9 December 2011, the Company issued 225,600,000 ordinary shares of US$0.05 each at an offering price of HK$2.65 each through the global offering for an aggregate consideration of approximately HK$597,840,000 (equivalent to approximately RMB487,240,000). These shares rank pari passu in all respects with the existing shares.

(d) Share issuance costs mainly included underwriting commission, lawyer's fees, reporting accountant's fee and other related costs. Incremental costs that were directly attributable to the issue of the new ordinary shares amounting to RMB28,473,000 was treated as a deduction from share premium. Other share issuance costs which were not directly attributable to the issue of the new ordinary shares amounting to RMB3,383,000 were recognised as expenses in the statement of comprehensive income.

## 30 Reserves

### (a) Merger reserve

The Group was formed on 28 March 2005 pursuant to a group restructuring exercise. The subsidiaries acquired pursuant to the group restructuring exercise under common control have been consolidated using the pooling-of-interest method. Under the pooling-of-interest method, the consolidated financial statements of the Group have been presented as if the Group's structure immediately after the group restructuring exercise has been in existence since the earliest financial year presented and the assets and liabilities are brought into the consolidated financial statements at their carrying amounts. The merger reserve of the Group represents the difference between the nominal amount of share capital issued by the Company and the nominal amount of the share capital of the subsidiaries transferred to the Company pursuant to the group restructuring exercise.

### (b) Statutory reserves

In accordance with the PRC Company Law and the PRC subsidiaries' Articles of Association, every year the subsidiaries are required to transfer 0-10% 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.

## 31 Retained earnings

Movements in retained earnings of the Company are as follows:

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Beginning of the year | **24,205** | 30,177 |
| Net profit | **90,147** | 70,678 |
| Dividends (Note 14) | **(40,000)** | (76,650) |
| End of the year | **74,352** | 24,205 |

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB90,147,000 (2010: RMB70,678,000).

Movements in retained earnings of the Group are shown in the consolidated statement of changes in equity.

## 32 Cash generated from operations

| | **2011** **RMB'000** | 2010 RMB'000 |
|---|---|---|
| Profit for the year | **221,696** | 147,838 |
| Adjustments for: | | |
| — Income tax expense | **54,630** | 13,019 |
| — Amortisation and depreciation | **48,513** | 40,027 |
| — Share of loss of a jointly controlled entity | **—** | 432 |
| — Provision for impairment of loans to an associated company | **—** | 1,778 |
| — Gain on disposal of investment in a jointly controlled entity | **—** | (344) |
| — Loss on disposal of property, plant and equipment | **1,509** | 375 |
| — Interest income | **(1,147)** | (530) |
| — Interest expense | **8,757** | 3,518 |
| — Share issuance costs | **3,383** | — |
| Operating cash flow before working capital changes | **337,341** | 206,113 |
| Change in working capital | | |
| — Receivables and prepayments | **(73,849)** | (62,311) |
| — Inventories | **(3,274)** | (15,363) |
| — Trade and other payables | **26,232** | 66,584 |
| Cash generated from operations | **286,450** | 195,023 |

## 33 Commitments

### (a) Capital commitments

As at 31 December 2011, the Group had the following capital commitments not provided for in respect of land use rights and property, plant and equipment:

| | The Group | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| Authorised but not contracted for | | |
| — Property, plant and equipment | **25,417** | 184,500 |
| — Land use rights | **—** | 45,000 |
| Contracted but not provided for | | |
| — Property, plant and equipment | **149,272** | 94,436 |
| | **174,689** | 323,936 |

## 33 Commitments (continued)

### (b) Operating lease commitments

As at 31 December 2011, the future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases were as follows:

| | The Group | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| Not later than one year | **355** | 98 |
| Later than one year but not later than five years | **—** | 98 |
| | **355** | 196 |

The Company did not have any significant commitment as at 31 December 2011 and 2010.

## 34 Related party transactions

In addition to the information disclosed elsewhere in the consolidated financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

### (a) Sale and purchase of goods and services:

| | The Group | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| Purchase of finished goods from a jointly controlled entity (Note (i)) | **—** | 1,533 |
| Rental income from | | |
| — a jointly controlled entity (Note (ii)) | **—** | 366 |

Note:

(i) Purchase of goods was made at mutually agreed prices. The transactions were discontinued in the year ended 31 December 2010.

(ii) Rental income was calculated based on the relevant agreements. The transactions were discontinued in the year ended 31 December 2010.

### (b) Key management personnel compensation:

| | The Group | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| Directors' fee | **51** | 214 |
| Salaries and other employee benefits | **5,232** | 3,462 |
| | **5,283** | 3,676 |