Labixiaoxin Snacks Group Limited
蠟筆小新休閒食品集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1262

Annual Report 2013

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

7th Floor, AT Tower
180 Electric Road
North Point, Hong Kong

PLACE OF LISTING AND STOCK 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)*

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

HLB Hodgson Impey Cheng Limited
31st Floor, Gloucester Tower
The Landmark, 11 Pedder Street
Central, Hong Kong

LEGAL ADVISER

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

PRINCIPAL SHARE REGISTRAR

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG SHARE REGISTRAR

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

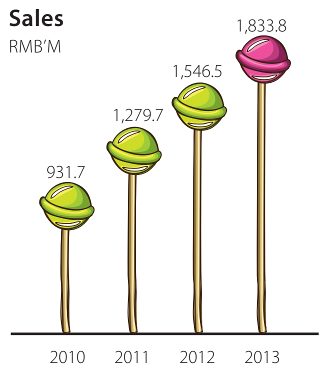
PRINCIPAL BANKERS

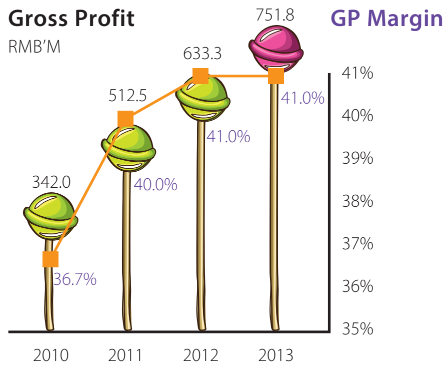
Construction Bank of China, Jinjiang Branch
Construction Bank Building
Zeng Jin Area, Qing Yang
Jinjiang, Fujian
PRC

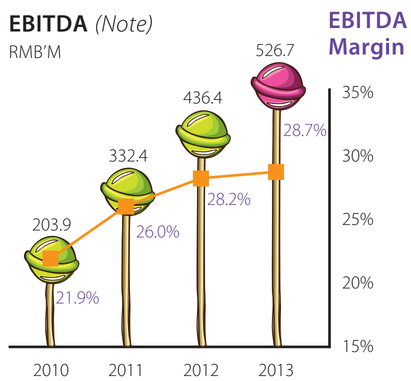
China CITIC Bank, Quanzhou Branch
1-2/F, Renmin Yinhang Building
Quanzhou, Fujian
PRC

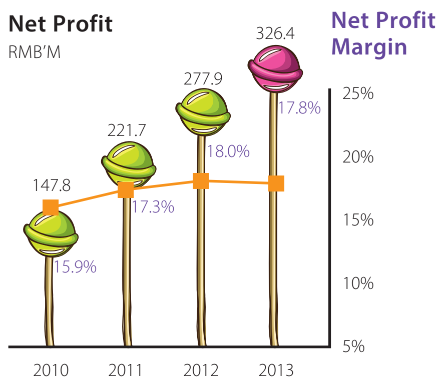
Agricultural Bank of China,
Tianjin Wuqing Branch
Jinrong Building
Northern Xinhua Road
Yangcun Town
Wuqing Area, Tianjin
PRC

Financial Highlights

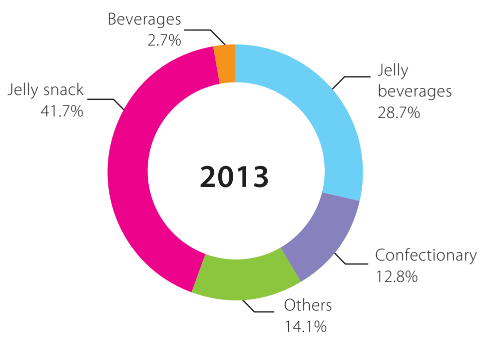


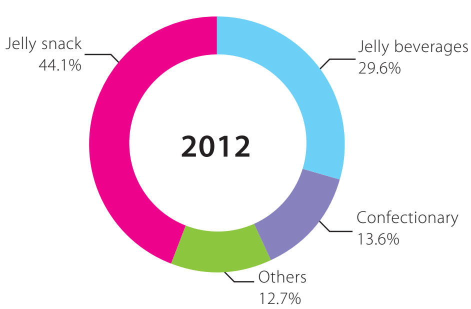




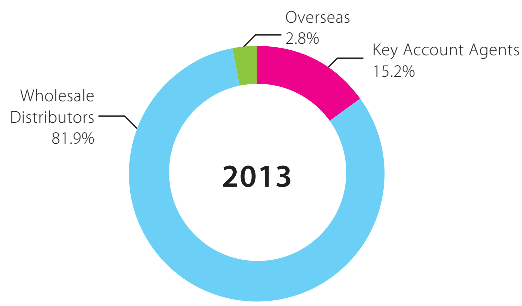


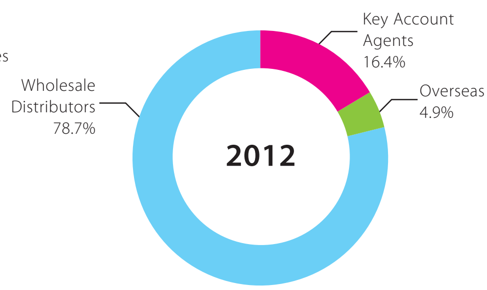
Sales by Products





Sales by Distribution Channels





Note: EBITDA refers to earnings before interest, income tax, depreciation and amortisation and non-cash share based payment.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales	**1,833,795**	1,546,482	1,279,712	931,680	771,360
Gross profit	**751,762**	633,295	512,499	341,998	288,450
Profit before income tax	**449,041**	369,239	276,326	160,857	94,182
Income tax expense	**(122,659)**	(91,379)	(54,630)	(13,019)	(40,694)
Profit and total comprehensive income for the year	**326,382**	277,860	221,696	147,838	53,488

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**1,472,290**	1,267,089	1,003,783	691,154	632,218
Current assets	**1,230,514**	768,900	881,525	302,583	206,301
Total assets	**2,702,804**	2,035,989	1,885,308	993,737	838,519
Equity					
Total equity	**1,930,912**	1,658,938	1,433,295	653,702	582,514
Liabilities					
Non-current liability	**414,976**	17,410	9,245	7,011	2,052
Current liabilities	**356,916**	359,641	442,768	333,024	253,953
Total liabilities	**771,892**	377,051	452,013	340,035	256,005
Total equity and liabilities	**2,702,804**	2,035,989	1,885,308	993,737	838,519

Dear shareholders,

I am glad to show you another good year of LBXX. I call it good not just because we have delivered a sound performance on broad base, but also we are laying down a solid foundation to build LBXX's future.

In terms of financial performance, sales increased by 18.6% to RMB1,833.8 million. Gross profit margin stood at 41.0%, partly due to extra sales discount granted to the distributors as subsidy for the delivery costs taken up by the distributors starting from this year, and offset by the favorable input cost environment. Excluding the extra sales discount, the gross profit margin was actually up by 2.0 percentage points to 43.0%. Both EBITDA and net profit were up by 20.7% and 17.5% to RMB526.7 million and RMB326.4 million respectively. Operating cash flow increased by 0.6% to RMB341.0 million because more income tax was paid due to expiry of income tax benefits. We have spent RMB258.2 million in CAPEX in 2013. The flavored milk production lines have commenced operation in November 2013. The new jelly products production lines will also commence operation in second quarter of this year that will bring us additional capacity of 50,000 tonnage per annum. Furthermore, we bought a new land parcel at Jinjiang to be our fifth production base in China. Free cash flow for the year was consequently amounted to RMB792.2 million. Our financial position remained strong and healthy. While we have signed up a 3-year syndicated bank loan of USD75.0 million, the debt/EBIDTA by end of the year stood at only 1.04, a pretty healthy level. Nevertheless, we are still in net cash position.

As I said, this was a good year of LBXX not just limited to broad-based financial performance. In terms of our core jelly business, we were eventually stepping away from the Gelatin Incidence. We were happy to note a rising demand amid recovery of consumers' confidence on jelly products. Of course, there are new challenges ahead but there are also new opportunities. In fact, it is an ever more intense environment. Our job is to identify opportunities for growth in areas characterized by selective consumers and also capitalize on buoyant demand in other areas. This requires specific, individual, region-by-region approach and react promptly to unpredictable changes in consumer preference and their consumption habit. We always put consumers first in the priority and that we offer outstanding value propositions through our products appropriate to different consumer segments. We differentiate our brand from those of our peers and that we continued investment in innovation, in consumer communications, in operations and in distributions. It was this commitment enables us to outstand in the market. According to latest research report issued by Euromonitor, our market share of jelly products in the PRC further increased to 13.1% by the end of 2013.

The non-jelly segments also did well in 2013. Credit should be given to new products such as "Xiao Xin Cup" chocolate cracker ball and "CHOCO" cereal bar that was launched during the year. Given the stunning demand of these products, we started producing these products ourselves instead of outsourcing to OEM partners.

Besides, let me tell you particularly our "Xiao Xin Ru Guo" flavored milk which may probably bring us to new era of LBXX. It has actually occupied a major portion of our focus and resources in recent years. Numerous works have been done and you are not surprised that we have to make a lot of difficult decisions in the course of process. You should not be surprised either that the road ahead is full of various challenges but we have the commitment to move on and develop our path step-by-step. Actually, we enjoyed the process very much, perhaps because of our genes as an entrepreneur. Nowadays, we are happy to see that consumers have another good choice of flavored milk from the market – our "Xiao Xin Ru Guo" and this is exactly our ultimate mission: to facilitate people to live an enjoyable life. Our production lines of flavored milk have commenced operation since November 2013 and we now have more resources to fill up the market. Given the encouraging feedback from the market, we need to build more production lines to support the increasing demand.

In 2013, we have locked up a 3-year syndicated bank loan. The proceeds will mainly be used in expansion of our production capacity, in particular the beverage products. Besides, it also helped to build a tax shield for the Group for tax planning purpose. Actually, this is the first time we raise funding in off-shore debt market and we wish to establish a good credential in debt market, like what we are doing in equity market. We appreciate that those brokerage houses and investment banks who have invited us to participate their investor conference and have arranged various investors' meetings for us. We aim at developing a continuous dialogue with the investors or shareholders and to be as transparent as we can.

We thought 2014 was equally challenging as 2013. In fact, it might be the most challenging year since we started the business in 2000. In March 2014, we were accused by a financial magazine in the PRC for overstatement of certain financial numbers. Furthermore, CCTV has reported our gummy candies were contaminated by toxic gelatin. The independent directors have established an Independent Special Review Committee to conduct professional special review on the captioned incidences. Based on the special review reports, we believed allegations contained in the article of the financial magazine were unjustified and unreasonable and we can also confirm that quality of "*Labixiaoxin*" products has complied with the necessary industry standards. We believed the worst situation has already been behind us and these challenges will only lead us to become a stronger enterprise.

Last but not the least, I am not the only one to bring you this good performance in 2013, credit should also be given to my brothers, my brother-in-law, my board of directors, my best team of colleague, business associates, etc. I greatly appreciate your efforts and commitment, and your unstinting enthusiasm. I look forward to seeing your continuous involvement in our road ahead.

Yours sincerely

ZHENG YU LONG
Chairman

蜡笔小新®

小新乳果
XIAO XIN RU GUO
草莓味
牛奶饮品
好喝就是
yummy
净含量/规格:3.96L（330mLX12包）
Banana
香蕉味牛奶饮料
牛奶饮品
巧克力味
牛奶饮品
原味

ANGRY BIRDS
图案仅供参考
小新乳果
牛奶饮品
草莓味
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OVERVIEW

During the year, the Group was stepping away from gelatin incidence that occurred in mid 2012 eventually, which was reflected in the stronger growth in the overall sales in second half of the year. As a result, the total sales of the Group for the year surged 18.6 % from 2012. While the Group has continuously reinvested in branding that increased the advertising and promotion expenses from 7.4% of sales in 2012 to 10.5 % of sales in 2013, it maintained a good balance to short term profit to the fact that EBITDA margin improved by 0.5 percentage point from 28.2 % in 2012 to 28.7 % in 2013. This was primarily due to soft input cost environment and improved operational efficiency. Since all of the tax holidays applicable to the Group's subsidiaries had expired by the end of 2012, the effective tax rate increased from 24.7 % in 2012 to 27.3 % in 2013, the net profit margin dropped slightly from 18.0 % in 2012 to 17.8 % in 2013. Nevertheless, the net profit of the Group increased by 17.5 % year on year from RMB277.9 million to RMB326.4 million.

SALES

Sales surged by 18.6 % to RMB1,833.8 million in 2013. The Group continuously expanded its distribution teams to penetrate "*Labixiaoxin*" products into new areas or new retail channels. By the end of 2013, the Group had a total of 371 wholesale distributors and key account agents. The sales derived from the new distributors and key account agents, excluding terminated distributorships, represented 10.3 % of the total domestic sales in 2013 while the existing distributors demonstrated a strong growth of 9.2 % in 2013. The growth and performance in Western China was most notable among the regions the Group operated, delivering a year on year growth of 24.6 %. Sales in Northern and Central China remained robust, all of which soared by over 20% year on year. The sales momentum in Eastern China and Southern China constant and recorded a steady year on year growth of 19.1 % and 14.5 %, respectively. Sales in modern retail channels also remained robust, while sales via key account agents grew by 10.6 % to RMB279.5 million in 2013, representing 15.7 % of the total domestic sales. Sales in traditional retail channels demonstrated an even stronger growth. Sales via wholesale distributors increased by 23.4 % from RMB1,502.5 million in 2012.

As disclosed in the interim report, the delivery costs that were previously borne by the Group, being the costs of delivering products from the Group's warehouses to distributors' warehouses, had been borne by the Group's distributors in consideration of the additional discounts granted as subsidies to the distributors. Such discounts amounted to a total of RMB63.0 million, representing 3.0 % of gross sales, and were directly offset against sales in 2013. Consequently, the reported sales and gross profit in 2013 decreased, but the net profit for the year had not been affected as the selling and distribution expenses also dropped by the same amount. For comparison purpose, on the assumption that the additional sales discounts were excluded from sales, the adjusted sales would surge by 22.7 % and the adjusted gross profit margin would improve by 2.0 percentage points, as compared with 2012.

Jelly products

Sales of jelly products increased by 13.3 % from RMB1,140.6 million in 2012 to RMB1,291.9 million in 2013, of which sales attributable to jelly snacks and jelly beverages increased by 12.2 % to RMB765.5 million and 14.9 % to RMB526.3 million, respectively. Volume growth was the key driver for the sales growth and was partially off-set by lower average selling price due to additional discounts granted during the year as mentioned in the previous paragraph.

Confectionary products

Sales of confectionary products increased by 12.4 % to RMB235.8 million in 2013 from RMB209.7 million in 2012 despite the decrease in the sales of confectionary products in the second half of the year by 2.3 %. The decrease was largely attributable to the increased shelf spaces in the retail channels allocated to other "*Labixiaoxin*" snacks, such as "Xiao Xin Cup", "Megg" egg roll, etc.

Beverages products

The Group soft launched "Xiao Xin Ru Guo" flavored milk during the second quarter of 2013, which contributed RMB49.7 million sales in 2013. The Group is building a new distribution team for the beverage products. By the end 2013, the Group had engaged about 100 wholesale distributors, which were primarily distributing "Xiao Xin Ru Guo" flavored milk in the second and third tier cities in Anhui, Zhejiang and Fujian Provinces, etc. The in-house production lines commenced operations in November 2013, which was delayed slightly from the original plan. The issues concerning supplies had been fully resolved since the in-house production lines commenced operations. As reflected from the sales figures, the monthly sales of the beverage products by end of the year had jetted up to over RMB10 million versus an average of RMB5 million prior to the commencement of the operations of the in-house production lines. The momentum was continuing to 2014 and the utilisation rates of the production lines are gradually increasing.

Other snacks products

Sales of other snacks products soared by 30.7 % to RMB256.4 million in 2013 from RMB196.2 million in 2012. Credit should be given to the new products launched, including "Megg" egg rolls, "Megg" red bean bun and "Xiaoxin cup" – chocolate cracker ball, which generated a robust demand.

COST OF SALES AND GROSS PROFIT MARGIN

Cost of sales increased by 18.5 % to RMB1,082.0 million in 2013 from RMB913.2 million in 2012, which was in line with the increased sales. The gross profit margin was maintained at 41.0%. As previously mentioned, the Group granted additional sales discount in 2013 to subsidise the delivery costs borne by distributors. Excluding the additional sales discount for comparison purpose, the gross profit margin would improve by 2.0 percentage points, as compared to 2012. Such increase in the gross profit margin was primarily attributable to the general soft input cost environment in 2013.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by 21.3 % to RMB246.9 million in 2013 primarily due to increase in advertising and promotion expenses, operating costs of sales department, which were offset by the decrease in freight and transportation expenses that was taken up by the distributors in 2013. The Group granted an extra sales discount of 3.0 % of gross sales to subsidize the distributors for the said arrangement while the freight and transportation expenses represents 3.4% of sales in 2012.

During the year, the Group had invested aggressively in various media and retail channels to promote "*Labixiaoxin – Xiaoxin Ru Guo*" flavored milk series. The advertising and promotion expenses increased by 67.9 % to RMB191.9 million representing 10.5 % of the total sales, as compared to 7.4% of the total sales in 2012. The Group will monitor the advertising and promotion expenses within range of 8 – 10% of the total sales.

ADMINISTRATIVE EXPENSES

Administrative expenses increased slightly by 5.7 % to RMB74.0 million in 2013 from RMB70.0 million in 2012. The overall administrative expenses to sales ratio was 4.0 % which was comparable to that of in 2012.

OTHER GAINS, NET

Balance primarily comprised of net exchange gains, loss on disposal of machinery and equipment and net gain from the sales of raw materials and scrap materials. During the year, the Group incurred net gains of RMB6.5 million, which was attributable to the gains from exchange rate as a result of the appreciation of Renminbi during the year.

INCOME TAX EXPENSE

The Group income tax expense increased by 34.2 % to RMB122.7 million in 2013, representing an effective income tax rate of 27.3 % as opposed to the effective tax rate of 24.7% in 2012. This was mainly because tax benefit of the Group's subsidiary expired in 2012 who was subjected to standard income tax rate of 25% starting from 2013.

NET PROFIT FOR THE YEAR

Net profit for the year increased by 17.5 % from RMB277.9 million in 2012 to RMB326.4 million in 2013. This was primarily due to the increase in sales and margin improvement, which was partially offset by the increase in effective income tax rate.

FINANCIAL REVIEW

Financial resources and liquidity

The Group mainly financed its operations and capital expenditure by cash and bank balances, internal generated cash flows and bank borrowings.

As at 31 December 2013, the bank balances and deposits amounted to RMB792.2 million, representing an increase of RMB386.1 million as compared with the year ended 31 December 2012. These were mainly due to good cash flow generated from operating activities and bank borrowings under a 3-year syndicated bank loan during the year. Total borrowings of the Group as at 31 December 2013 increased sharply by 499.3 % to RMB450.0 million, which was primarily due to the said 3-year syndicated bank loans that the Group secured in 2013. Over 90% of the Group's cash and bank balances were denominated in RMB while over 90% of the Group's borrowings were denominated in USD. While the Group's gearing ratio (total borrowings divided by total equity) as at 31 December 2013 increased to 23.3 % (31 December 2012: 4.5%), the Group remained at a net cash position as at 31 December 2013.

The Group maintained sufficient cash and available banking facilities for its working capital requirements and for capitalising 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.

Cash flow

Cash flow generated from operating activities increased slightly by 0.6 % from RMB339.1 million in 2012 to RMB341.0 million in 2013. Due to the expiry of tax benefit of the Group's subsidiary in 2013, the total income tax paid in 2013 raised sharply by 76.7 % from RMB70.4 million in 2012 to RMB124.4 million in 2013, reducing the cash generated from operating activities. In 2013, the Group expended RMB243.4 million in investment activities, which were primarily related to the expansion of production facilities. The Group had an inflow of cash in the amount of RMB288.5 million from financing activities which primarily represented funds raised from the 3-year syndicated bank loan and proceed from the exercise of share options of RMB14.8 million.

Capital expenditure

During the year, the Group expended RMB258.2 million in capital expenditure, which were primarily related to the construction of production facilities in Anhui Province, the acquisition of new production lines and deposits paid for a new parcel of land in Jinjiang. The flavored milk production lines at the Anhui production facilities had commenced full operation since November 2013, which was a bit delayed from the original plan. The production lines of jelly products at the Anhui production facilities are currently under trial production, which are expected to commence operation in the second quarter of 2014. The new parcel of land in Jinjiang will be the Group's fifth production facility.

The above capital expenditure was primarily financed by the bank borrowings under the 3-year syndicated bank loan and operating cash flows.

Inventory analysis

The Group's inventories primarily consisted of finished goods of jelly products, confectionary products, beverage products and other snacks products, as well as raw materials and packaging materials. As at 31 December 2013, balance increased to RMB85.3 million from 1 January 2013, which was mainly due to the increase in operating scale in general. The inventories turnover days in 2013 and 2012 were 23 days and 21 days, respectively.

Trade receivables

Trade receivables mainly represented the balances due from the wholesale distributors and key account agents. The Group typically sells its products on credit and grants a 30-day credit period to most of the wholesale distributors and a 90-day credit period to the key account agents. Balance increased to RMB295.4 million from 1 January 2013, which was mainly due to larger scale of operation. The trade receivable turnover days for in 2013 and 2012 were 45 days and 48 days, respectively.

Trade payables

Trade payables mainly represented the balances due to the Group's suppliers who generally grant credit periods ranging from 30 days and 60 days to the Group. 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 in 2013 and 2012 were 57 days and 75 days respectively.

Charges on assets

As at 31 December 2013, the Group had the following charged assets:

(i) bank deposits of RMB16.2 million (31 December 2012: RMB9.6 million);

(ii) land and building with net asset value of RMB9.5 million (31 December 2012: RMB10.0 million); and

(iii) shares of certain wholly-owned subsidiaries of the Group.

Contingent liabilities

As at 31 December 2013, the Group had no contingent liabilities (31 December 2012: Nil).

Disclosure pursuant to Rule 13.18 of the Listing Rules

On 25 February 2013, the Company as borrower entered into a facility agreement (the "**Facility Agreement**") with certain banking institutes as original lenders in relation to a US$75,000,000 term loan facility for a term of 36 months commencing from the date of the Facility Agreement.

The Facility Agreement included a condition imposing specific performance obligations on Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hung Kong, the controlling shareholders of the Company (the "**Controlling Shareholders**"), who were collectively interested in approximately 64.10% of the issued share capital of the Company as at the date of the Facility Agreement. It will result in a change of control in the event that (i) the Controlling Shareholders collectively do not or cease to, at any time directly or indirectly own at least 35% of the issued share capital of the Company on a fully diluted basis; or (ii) the Controlling Shareholders collectively do not or cease to, at any time directly or indirectly, have the ability to direct the affairs of the Company.

If a change of control occurs, the facility agent to the Facility Agreement may cancel all the available facility and declare all or part of the outstanding loan, together with all accrued interests, breaks costs (if any) and all other amounts accrued pursuant to the Facility Agreement then due and payable, whereupon the Facility Agreement will be cancelled and all such outstanding amounts will be immediately due and payable.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2013, the Group had approximately 2,600 employees and total remuneration expenses for 2013 amounted to RMB105.4 million including amortisation cost of share options in the amount of RMB2.8 million. The employees' salaries are reviewed and adjusted annually based on employee's performance and experience. The Group's 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.

On 30 March 2012, the Group granted 15,000,000 share options to certain employees of the Group with an exercise period from 31 March 2012 to 30 March 2017 at an exercise price of HK$2.68 per share. There are three vesting periods for these share options. As at 31 December 2013, 7,000,000 share options were vested and had been fully exercised.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition and disposal of subsidiaries and associated companies during the year of 2013.

CHANGE OF AUDITORS

On 12 May 2014, PricewaterhouseCoopers ("PwC") has resigned as auditors of the Group. The Board has appointed HLB Hodgson Impey Cheng Limited ("HLB"), as the new auditors of the Company to fill the vacancy immediately following the resignation of PwC and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

Save as disclosed above, there were no other changes in auditors of the Company during the past three years.

PROSPECT

On 15 March 2014, certain media in the PRC including CCTV news, reported on the supply of toxic gelatine by certain enterprises in the food production in the PRC, which included a supplier of one of the Group's OEM partners in respect of the production of "*Labixiaoxin*" gummy candy products. Subsequently, some of the relevant government authorities conducted inspections on the Group's "*Labixiaoxin*" gummy candy products. In addition, to ensure the Group's products comply with the relevant product quality requirements, the Group engaged independent third party laboratories to conduct further inspections on some of the Group's core jelly products. The reports of such inspections indicated that all of the samples under inspections were in compliance with the relevant industry standards. The Group is committed to product safety and all products of the Group bears high standards of product quality, including the "*Labixiaoxin*" gummy candy products. The Group's however, acknowledges that it had been adversely affected by the incidence, including consumer's confidence in the product quality of the Group's traditional snacks.

The snacks food industry in the PRC is yet again facing another challenge, which is similar to the food safety scandals that happened before leading to the market consolidation and elimination of weak market participants. The Group, as one of the major market participants, will go through this difficult moment together with our distributors, retailers and other business partners. The Group will become stronger from the challenge. Although the current scandal might affect the short term financial performance of the Group, the Group is cautiously optimistic in the medium to long term prospectus of the business.

DIRECTORS

ZHENG YU LONG — Chairman and Executive Director

Mr. Zheng Yu Long, aged 48, is the chairman of the Group and an executive Director. He was appointed as a Director on 1 June 2004 and was re-designated as an executive Director on 23 September 2011. Mr. Zheng is primarily responsible for the overall operations, strategic planning and business development of the Group. He is also actively involved in the marketing of the products and branding of the Group, and procurement of raw materials of the products from suppliers. Mr. Zheng is a key contact person between the Group and its business partners. He is one of the founders of the Group's jelly products business and is also a director of the Group's subsidiary, Timeluck. Mr. Zheng joined the Company 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 the Group in 2000, Mr. Zheng has dedicated the past 12 years to expand and promote the 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 Yu Shuang, aged 45, is the chief executive officer of the Group and an executive Director. He was appointed as a Director on 1 June 2004 and was re-designated as an executive Director on 23 September 2011. Mr. Zheng is primarily responsible for the overall operations of the Company. He heads the Group's production department and oversees the quality control department. Mr. Zheng is one of the founders of the Group's jelly products business and is also a director of a number of the Group's subsidiaries, including LBXX Investments, LBXX Holdings, LBXX International, LBXX Sichuan, LBXX Anhui, LBXX Fujian, LBXX Tianjin and Timeluck. Mr. Zheng has over 18 years of experience in the manufacture of snack food products. He joined the Group 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 Yu Huan, aged 43, is an executive Director. He was appointed as a Director on 15 June 2004 and was re-designated as an executive Director on 23 September 2011. Mr. Zheng is primarily responsible for the Group's sales and marketing operations, including formulating the advertising and promotional programs. Mr. Zheng is one of the founders of the Group's jelly products business and is also a director of a number of the Group's subsidiaries including LBXX International and Timeluck. Mr. Zheng has over 15 years of experience in sales and marketing of snack food products. He joined the Group 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 Hung Kong, aged 45, is the vice-chairman and non-executive Director. He was appointed as a Director on 1 June 2004 and was re-designated as a non-executive Director on 23 September 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 the subsidiaries, including LBXX Investments, LBXX Holdings, LBXX Fujian and Timeluck. Mr. Li joined the Group in 2000 as a director of LBXX Fujian. Prior to joining the Group, 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 ZHI HAI — Independent Non-Executive Director

Mr. Li Zhi Hai, aged 59, is the independent non-executive Director. He was appointed as an independent non-executive Director on 23 September 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 Kam Ching, aged 41, is the independent non-executive Director. She was appointed as an independent non-executive Director on 23 September 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 courses for independent non-directors conducted by the Shenzhen Stock Exchange in 2008.

CHUNG YAU TONG — Independent Non-Executive Director

Mr. Chung Yau Tong, aged 41, is the independent non-executive Director. He was appointed as an independent non-executive Director on 23 September 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.

SENIOR MANAGEMENT

Mr. Yap Yung, aged 41, is our chief financial officer and company secretary. He is responsible for the overall management of our finance, accounting and corporate finance matters. Mr. Yap joined us as our financial controller in 2003. Prior to joining us in 2003, Mr. Yap was with PricewaterhouseCoopers from 1995 to 2002, where he last held the position of an audit manager. From August 2002 to August 2003, he was a financial controller at Tai Hing Motors (International) Limited (大興汽車(國際)有限公司). Mr. Yap received his bachelor's degree in mechanical engineering from The University of Hong Kong in 1995. Mr. Yap obtained the British Chevening Scholarship in 2003 and completed an advanced management program at Cambridge University in 2003 on scholarship. He is an associate of the Hong Kong Institute of Certified Public Accountants.

Mr. Lian Xi, aged 51, is the head of our sales and marketing department. He is responsible for the overall sales and marketing of our products. He has over 15 years of experience in the food production industry. Mr. Lian joined us in 2002 as the production manager of LBXX Fujian. From 1984 to 1992, Mr. Lian worked at Fujian Pharmaceutical (福州製藥廠) where he last held the position of an assistant engineer. Prior to joining us in 2002, Mr. Lian was the manager of the marketing department and the deputy manager of the sales department of Fujian Lv De Biology Holding Ltd. (福建綠得生物股份有限公司). Mr. Lian received his bachelor's degree in light industrial machinery from Fuzhou University (福州大學) in 1984, his postgraduate certificate in business administration from the Open University of Hong Kong in 2001, and his master's degree in business administration from the Open University of Hong Kong in 2003.

Mr. Chen Jian Ming, aged 49, is the head of our procurement department. He is primarily responsible for the sourcing and procurement of raw materials for the Group. He has over 15 years of commercial experience. Mr. Chen joined us in 2010. Prior to joining us, Mr. Chen served in various positions at China Construction Bank, Quanzhou branch (中國建設銀行泉州分行) between January 1990 and October 2010, including deputy branch manager, deputy manager and manager of the credit department. Mr. Chen received a bachelor's degree in finance from Hunan University (湖南大學) through online courses in July 2005. He is also recognized as a qualified professional in economics (經濟師) by the Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人事部).

Mr. Zhang Xiao Dong, aged 43, is the head of research and development and our quality control department. He is responsible for the administration of the development and quality control of our products. He has also been the director of the technical department of LBXX Fujian since February 2010. He has over 15 years of experience in product engineering and product research. Mr. Zhang joined us in May 2005 as the manager of the quality technological department of LBXX Fujian. From July 1994 to December 1995, he was a technician at the food production base of Lanzhou military headquarters (蘭州軍區司令部副食品生產基地). From May 2002 to April 2005, he was a research engineer at Hainan Yi De Food Products Co., Ltd. (海南億德食品有限公司). Mr. Zhang received a bachelor's degree in food engineering from Gansu Agricultural University (甘肅農業大學) in June 1994.

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2013.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance practices to enhance shareholders value and safeguard shareholders interests. In the past, the Board and the management of the Company have been continually reviewing and enhancing its corporate governance practices. The Group's corporate governance principles emphasize the importance of a quality Board, effective internal controls and accountability to all the shareholders of the Company.

The Company has applied the principles as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

In the opinion of the directors of the Company (the "**Directors**"), save for the deviation to Code Provision A.6.7 of the CG Code as disclosed in this section, the Company has complied with all the code provisions as set out in the CG Code throughout the year ended 31 December 2013.

The Company continues to review its corporate governance practices regularly to ensure compliance with the CG Code.

THE BOARD OF DIRECTORS

Responsibilities

The Board is responsible for overseeing the overall development of the Company's business with the objectives of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance and developing and reviewing the Group's policies and practices on corporate governance. The Board has delegated to the chief executive officer, of which the directors also undertake, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

Board Composition

As at the date of this Annual Report, the Board comprises seven members in total, with three executive directors, one non-executive director and three independent non-executive directors.

The composition of the Board during the year ended 31 December 2013 and up to the date of this Annual Report is set out below:

Executive Directors

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

Non-Executive Directors

Mr. Li Hung Kong	*(Vice-chairman)*

Independent Non-Executive Directors

Mr. Li Zhi Hai
Ms. Sun Kam Ching
Mr. Chung Yau Tong

The biographical details of the current Board members are set out under the section headed "Directors and Senior Management" on pages 17 to 19 of this 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 independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

During the year ended 31 December 2013, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive directors represented over one-third of the Board.

The Company has received written annual confirmation from each independent non-executive director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All directors, including non-executive director and independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan are brothers and Mr. Li Hung Kong is a brother-in-law of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan. Save as disclosed, there is no other relationship among the members of the Board.

Chairman and Chief Executive Officer

During the year ended 31 December 2013, the roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.

The Chairman of the Board is Mr. Zheng Yu Long, and the Chief Executive Officer is Mr. Zheng Yu Shuang. The positions of Chairman and Chief Executive Officer are held by separate persons in order to preserve independence and to maintain a balance of views and judgement. With the support of the senior management, the Chairman is responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

Appointment and Re-election of Directors

Each of the executive and non-executive directors of the Company has entered into a service agreement for a term of three years and one year respectively, and the appointment may be terminated by not less than three month's written notice; while each of the independent non-executive directors of the Company has entered into a letter of appointment for a term of one year. The appointment may be terminated by not less than three months' written notice.

In accordance with the Company's Bye-laws, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed by the Board to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Bye-laws. The Nomination Committee is to be responsible for reviewing the Board composition, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notice of regular Board meetings is served to all directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management where necessary.

The senior management, including Chief Executive Officer, Chief Financial Officer and Company Secretary, attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and final versions are open for directors' inspection.

The Company's Bye-laws contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

Directors' Attendance Records

During the year ended 31 December 2013, seven regular Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at the Board meetings and the 2013 annual general meeting (the "**2013 AGM**") during the year ended 31 December 2013 are set out below:

	Attendance/Number of Meetings	
Name of Director	**Board Meetings**	**2013 AGM**
Mr. Zheng Yu Long	7/7	1/1
Mr. Zheng Yu Shuang	7/7	0/1
Mr. Zheng Yu Huan	7/7	0/1
Mr. Li Hung Kong	7/7	0/1
Mr. Li Zhi Hai	7/7	1/1
Ms. Sun Kam Ching	7/7	1/1
Mr. Chung Yau Tong	7/7	1/1

Code Provision A.6.7 of the CG Code provides that the independent non-executive directors and non-executive directors should attend general meetings of the Company. Due to prior business engagements external to the Company, the non-executive director of the Company, Mr. Li Hung Kong was unable to attend the 2013 AGM.

Continuous Professional Development

Directors must keep abreast of their collective responsibilities and are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide to each newly appointed Director or alternative Director an induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Group's businesses and the statutory regulatory obligations of a director of a listed company as well as the Company's constitutional documents to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements. The Group also provided briefings and other training to develop and refresh the Director' knowledge and skills from time to time. Further, the Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year ended 31 December 2013, there was one in-house seminar conducted covering the topics of directors' duties, corporate governance practices and disclosure requirements under the Listing Rules and SFO of which all the directors of the Company had attended. In addition, some of the directors also attended external seminars and/or conferences organized during the year under review. All directors also read materials in relation to regular update to statutory requirements, listing rules and other relevant topics related to listed company.

During the year ended 31 December 2013, the Company Secretary has taken not less than 15 hours of relevant professional training.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules (the "**Appendix 10**") and devised its own code of conduct regarding directors' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code as set out in Appendix 10.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2013.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "**Employees Written Guidelines**") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers. The Board also has the full support of the Chief Executive Officer and the senior management for the discharge of its responsibilities.

BOARD COMMITTEES

As an integral part of sound corporate governance practices, the Board has established three committees, namely, the Nomination Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference, which are available to shareholders on the Company's website. Each of the Nomination Committee, the Remuneration Committee and the Audit Committee are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Nomination Committee

The Nomination Committee comprises three members, namely Mr. Zheng Yu Shuang, Mr. Li Zhi Hai and Mr. Chung Yau Tong, the majority of which are independent non-executive directors, with Mr. Li Zhi Hai acting as the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of the independent non-executive directors.

During the year ended 31 December 2013, the Nomination Committee was primarily responsible:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on selection of individuals nominated for directorships;
- to assess the independence of Independent Non-Executive Directors, having regard to the requirements under the applicable laws, rules and regulations; and
- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors and, in particular, the chairman and the chief executive officer of the Company.

The Nomination Committee will meet at least once per year according to its terms of reference. A Nomination Committee meeting was held during the year under review, details of attendance are set out below:

Nomination Committee Members	Attendance/ Number of Meeting
Mr. Li Zhi Hai *(Chairman of Nomination Committee)*	1/1
Mr. Zheng Yu Shuang	1/1
Mr. Chung Yau Tong	1/1

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Zheng Yu Long, Ms. Sun Kam Ching, and Mr. Chung Yau Tong, the majority of which are independent non-executive directors, with Ms. Sun Kam Ching acting as the chairman of the Remuneration Committee.

The Remuneration Committee is responsible for making recommendations to the Directors' remuneration and other benefits. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that level of their remuneration and compensation are reasonable. Their written terms of reference are in line with the provisions of the CG Code. Pursuant to Code Provision B.1.4 of the CG Code, the Remuneration Committee would make available its terms of reference, explaining its role and the authority delegated to it by the Board.

During the year ended 31 December 2013, the Remuneration Committee was primarily responsible:

- to make recommendations to the Board on the Company's policy and structure for all remunerations of Directors and senior management and on the establishment of formal and transparent procedures for developing policies on all such remunerations;
- to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- to review and approve performance-based remunerations by reference to corporate goals and objectives resolved by the Board from time to time;
- to review and approve compensation payable to Executive Directors and senior management members of the Company in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is fair and not excessive for the Company;
- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is reasonable and appropriate; and
- to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee held one meeting during the year ended 31 December 2013 and the details of attendance are set out below:

Remuneration Committee Members	**Attendance/ Number of Meeting**
Ms. Sun Kam Ching *(Chairman of Remuneration Committee)*	1/1
Mr. Zheng Yu Long	1/1
Mr. Chung Yau Tong	1/1

Audit Committee

The Audit Committee comprises three members, namely Mr. Li Zhi Hai, Ms. Sun Kam Ching, and Mr. Chung Yau Tong, all of which are independent non-executive directors, with Mr. Chung Yau Tong acting as the chairman of the Audit Committee.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system and to provide advice and comments to the Board.

During the year ended 31 December 2013, the Audit Committee was primarily responsible:

- to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that director;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services;
- to monitor integrity of financial statements of the Company and the Company's annual report and accounts and half-year reports and to review significant financial reporting judgements contained in them;
- to review the Company's financial controls, internal control and risk management systems;
- to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- to review the Group's financial and accounting policies and practices; and
- to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response, and to ensure that the Board provides a timely response to the issues raised.

The Audit Committee held two meetings during the year ended 31 December 2013 and the details of attendance are set out below:

Audit Committee Members	**Attendance/ Number of Meeting**
Mr. Chung Yau Tong *(Chairman of Audit Committee)*	2/2
Mr. Li Zhi Hai	2/2
Ms. Sun Kam Ching	2/2

Corporate Governance Functions

During the period under review, the Audit Committee is also responsible for determining the policy for the corporate governance of the Company performing the corporate governance duties as below:

- to develop and review the Group's policies and practices on corporate governance and make recommendations;
- to review and monitor the training and continuous professional development of the directors and senior management;
- to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Group; and
- to review the Group's compliance with the CG Code and disclosure requirements in the Corporate Governance Report.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2013.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements of inside information and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management of the Company has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

Internal Controls

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company. 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 2013. The internal control review report has been approved by Audit Committee and the Board on information furnished to it and/or its own observations, the Board is satisfied with the present internal control system.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor and senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on page 39.

During the year ended 31 December 2013, the Group's external auditor provided the following services to the Group:

Type of Services	RMB'000
Statutory audit services	3,736
Non-Audit Services	
– Taxation	27
Total	3,763

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders face-to-face dialogue with the shareholders. The Chairman of the Board as well as the respective chairman of each of the Nomination Committee, the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

The annual general meeting regarding the financial results for the year ended 31 December 2013 ("**AGM**") will be held on Tuesday, 19 August 2014. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

SHAREHOLDER RIGHTS

Convening a special general meeting by shareholders

Procedures for shareholders to convene a special general meeting (including making proposals/moving a resolution at the special general meeting)

- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "**Company Secretary**"), to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at a special general meeting.

- Eligible Shareholders who wish to convene a special general meeting for the purpose of making proposals or moving a resolution at an extraordinary/a special general meeting must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong.

- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene a special general meeting, the agenda proposed to be included the details of the business(es) proposed to be transacted in the special general meeting, signed by the Eligible Shareholder(s) concerned.

- If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholders of any outcome to the contrary and fails to proceed to convene a special general meeting, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the bye-laws, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Making enquiry to the Board

Shareholders of the Company may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong by post or email to 7th Floor, AT Tower, 180 Electric Road, North Point, Hong Kong.

INVESTOR RELATIONS

Amendments to the bye-laws and adoption of new bye-laws of the Company

At the annual general meeting of the Company held on 31 May 2013, the shareholders approved the amendments to the bye-laws and adoption of new bye-laws of the Company. The details of the major amendments are set out in the Circular of the Company dated 30 April 2013.

Investors Communication Policy

The Company regards the communication with institutional investors as important means to enhance the transparency of the Company and collect views and feedbacks from institutional investors. To promote effective communication, the Company maintains a website at http://www.lbxxgroup.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted are available for public access. During the year under review, the Directors and senior management of the Company participated in numerous road shows and investment conferences. In addition, the Company also maintains regular communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media.

Disclaimer

The contents of this section headed "Shareholders' Rights" are for reference and disclosure compliance purposes only. The information does not represent and should not be regarded as legal or other professional advice from the Company to the shareholders. Shareholders should seek their own independent legal or other professional advice as to their rights as shareholders of the Company. The Company disclaims all liabilities and losses incurred by its shareholders in reliance on any contents of this section headed "Shareholders' Rights".

The Board of Directors (the "**Board**") is pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

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

The principal activities of the Group are the manufacturing and sale of jelly products, confectionary products, beverages products and other snacks products in the PRC.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 41.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the identity of the shareholders who are entitled to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from Monday, 18 August 2014 to Tuesday, 19 August 2014 (both dates inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Friday, 15 August 2014.

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 the borrowings of the Group as at 31 December 2013 is set out in Note 26 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 27 to the consolidated financial statements.

RESERVES

The movements in the reserves of the Group during the year are set out on page 46 of the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and other assets and liabilities of the Group for the last five financial years is set out on page 5 of the 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)*
Mr. Zheng Yu Shuang *(Chief Executive Officer)*
Mr. Zheng Yu Huan

Non-Executive Director:

Mr. Li Hung Kong *(Vice-chairman)*

Independent Non-Executive Directors:

Mr. Li Zhi Hai
Ms. Sun Kam Ching
Mr. Chung Yau Tong

In accordance with bye-law 87 of the Company's Bye-law, Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan shall retire from office as Directors by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election as Directors of the Company.

Biographical details of Directors are set out on pages 17 to 18 of this Annual Report.

DIRECTORS' EMOLUMENTS

The emoluments of the Directors had been 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 had 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 "**Listing Rules**"). The Company is satisfied with the independent status and considered all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting of the Company has an outstanding service contract which is not terminable 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 interests, 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

As at 31 December 2013, the respective 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 as set forth in Appendix 10 of the Listing Rules (the "**Model Code**"), 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	53.9%	*1*
	Beneficial owner	111,308,060	9.8%	
Zheng Yu Shuang	Interest of a controlled corporation	610,915,527	53.9%	*1*
Zheng Yu Huan	Interest of a controlled corporation	610,915,527	53.9%	*1*
Li Hung Kong	Interest of a controlled corporation	610,915,527	53.9%	*1*

Note:

(1) Alliance Food And Beverages (Holding) Company Limited ("**Alliance Holding**") 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. 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 2013, 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.

SHARE OPTIONS

On 23 September 2011, a share option scheme (the "**Share Option Scheme**") was conditionally adopted by the written resolutions of the shareholders of the Company.

The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to recognise and acknowledge the contributions of the Eligible Participants (as defined in paragraph (b) below) 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 (i) to motivating the Eligible Participants to optimize their performance efficiency to the benefit of the Group; and (ii) to attracting and retaining or otherwise maintaining 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 the 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 the 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 the 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 the acceptance of a grant of options is HK$1.00.

The following are details of the options granted pursuant to the Share Options Scheme but not yet exercised during the year ended 31 December 2013:

Grantee and position	Date of grant of options	Number of options granted	Number of options granted during the year	Number of options exercised/ cancelled/ lapsed during the year	Number of options not yet exercised on 31 December 2013	Approximate percentage of shareholding upon the exercise of the options
Other employees	30 March 2012	15,000,000	–	(7,000,000)	8,000,000	1.3%

During the year ended 31 December 2013, no options were granted to a director, chief executive or substantial shareholder of the Company nor an associate (as defined in the Listing Rules) of any of them.

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 under review.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2013, 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)	53.90%	*2*
Zheng Yu Long	111,308,060	610,915,527	–	722,223,587 (L)	63.80%	*2*
Zheng Yu Shuang	–	610,915,527	–	610,915,527 (L)	53.90%	*2*
Zheng Yu Huan	–	610,915,527	–	610,915,527 (L)	53.90%	*2*
Li Hung Kong	–	610,915,527	–	610,915,527 (L)	53.90%	*2*

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.

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 2013.

CONNECTED TRANSACTIONS

Neither the Group nor the Company has entered into 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

Neither the Company nor its subsidiaries has purchased, redeemed or sold any of the securities of the Company during the year ended 31 December 2013.

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

As at 31 December 2013, the Group had an aggregate of 2,600 full-time employees. The Group recruited and promoted individual persons according to their strength and development potential. 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 outstanding or pending litigation and arbitration for the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company had maintained a sufficient public float throughout the year ended 31 December 2013.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group's largest customer and five largest customers accounted for approximately 2.7% (2012: 3.9%) and 10.7% (2012: 13.2%) of the Group's total turnover for the year, respectively.

During the year under review, the Group's largest supplier and five largest suppliers accounted for approximately 8.1% (2012: 6.4%) and 27.2% (2012: 19.8%) of the Group's total purchases for the year, respectively.

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.

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

On 25 February 2013, the Company as borrower entered into a facility agreement (the "**Facility Agreement**") with certain banking institutes as original lenders in relation to a US$75,000,000 term loan facility for a term of 36 months commencing from the date of the Facility Agreement.

The Facility Agreement included a condition imposing specific performance obligations on Mr. Zheng Yu Long, Mr. Zheng Yu Shuang, Mr. Zheng Yu Huan and Mr. Li Hung Kong, the controlling shareholders of the Company (the "**Controlling Shareholders**"), who were collectively interested in approximately 64.10% of the issued share capital of the Company as at the date of the Facility Agreement. It will result in a change of control in the event that (i) the Controlling Shareholders collectively do not or cease to, at any time directly or indirectly own at least 35% of the issued share capital of the Company on a fully diluted basis; or (ii) the Controlling Shareholders collectively do not or cease to, at any time directly or indirectly, have the ability to direct the affairs of the Company.

If a change of control occurs, the facility agent to the Facility Agreement may cancel all the available facility and declare all or part of the outstanding loan, together with all accrued interests, breaks costs (if any) and all other amounts accrued pursuant to the Facility Agreement then due and payable, whereupon the Facility Agreement will be cancelled and all such outstanding amounts will be immediately due and payable.

Save as disclosed above, as at 31 December 2013, the Company did not have other disclosure obligations under Rule 13.18 of the Listing Rules.

AUDITORS

On 12 May 2014, PricewaterhouseCoopers ("PwC") has resigned as auditors of the Group. The Board has appointed HLB Hodgson Impey Cheng Limited ("HLB"), as the new auditors of the Company to fill the vacancy immediately following the resignation of PwC and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

Save as disclosed above, there were no other changes in auditors of the Company during the past three years.

The financial statements for the year ended 31 December 2013 have been audited by HLB. A resolution will be proposed in the forthcoming annual general meeting to re-appoint HLB as auditors of the Company.

On behalf of the Board
Labixiaoxin Snacks Group Limited

Zheng Yu Long
Chairman

Hong Kong, 24 June 2014

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

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

TO THE SHAREHOLDERS OF
LABIXIAOXIN SNACKS GROUP LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Labixiaoxin Snacks Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 90, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 issued by the International Accounting Standards Board 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 auditors' judgment, 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 auditors consider internal control relevant to the entity's preparation of the 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.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013 and of its 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 matter

The consolidated financial statements of the Company and of the Group for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those statements on 28 March 2013.

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.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hon Koon Fai, Alex
Practicing Certificate Number: P05029

Hong Kong, 24 June 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
Sales	6	**1,833,795**	1,546,482
Cost of sales	9	**(1,082,033)**	(913,187)
Gross profit		**751,762**	633,295
Other income	7	**7,636**	8,916
Other gains, net	8	**6,467**	1,504
Selling and distribution expenses	9	**(246,907)**	(203,532)
Administrative expenses	9	**(74,005)**	(70,047)
Operating profit		**444,953**	370,136
Finance income		**11,781**	6,461
Finance costs		**(7,693)**	(7,358)
Finance income/(costs), net	11	**4,088**	(897)
Profit before income tax		**449,041**	369,239
Income tax expense	12	**(122,659)**	(91,379)
Profit and total comprehensive income for the year		**326,382**	277,860
Earnings per share attributable to equity holders of the Company (RMB per share)	13		
– Basic		**0.29**	0.25
– Diluted		**0.29**	0.25

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

The notes on pages 48 to 90 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Land use rights	*15*	**147,606**	150,922
Property, plant and equipment	*16*	**1,199,013**	991,138
Deposits for property, plant and equipment	*17*	**101,881**	118,917
Interests in an associated company		**–**	–
Deferred income tax assets	*19*	**23,790**	6,112
		1,472,290	1,267,089
Current assets			
Inventories	*20*	**85,339**	72,769
Trade receivables	*21*	**295,431**	269,517
Prepayments and other receivables	*22*	**41,334**	10,904
Pledged bank deposits	*23*	**16,214**	9,604
Cash and cash equivalents	*24*	**792,196**	406,106
		1,230,514	768,900
Total assets		**2,702,804**	2,035,989
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*27*	**406,133**	403,984
Share premium	*27*	**566,809**	550,787
Other reserves	*29*	**71,095**	33,311
Retained earnings		**886,875**	670,856
Total equity		**1,930,912**	1,658,938

	Note	2013 RMB'000	2012 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	*19*	**28,450**	17,410
Borrowings	*26*	**386,526**	–
		414,976	17,410
Current liabilities			
Trade and other payables	*25*	**261,377**	257,408
Borrowings	*26*	**63,459**	75,080
Current income tax liabilities		**32,080**	27,153
		356,916	359,641
Total liabilities		**771,892**	377,051
Total equity and liabilities		**2,702,804**	2,035,989
Net current assets		**873,598**	409,259
Total assets less current liabilities		**2,345,888**	1,676,348

Zheng Yu Long
Director

Zheng Yu Shuang
Director

The notes on pages 48 to 90 are an integral part of these consolidated financial statements.

Statement of Financial Position

As at 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*18(a)*	**134,206**	134,206
Loans to subsidiaries	*18(b)*	**909,382**	799,861
		1,043,588	934,067
Current assets			
Amounts due from subsidiaries	*18(b)*	**358,775**	118,333
Prepayments and other receivables	*22*	**117**	117
Pledged bank deposits	*23*	**8,966**	–
Cash and cash equivalents	*24*	**9,046**	4,768
		376,904	123,218
Total assets		**1,420,492**	1,057,285
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*27*	**406,133**	403,984
Share premium	*27*	**566,809**	550,787
Other reserves	*29*	**3,522**	4,063
(Accumulated losses)/retained earnings	*30*	**(15,198)**	86,758
Total equity		**961,266**	1,045,592

	Note	2013 RMB'000	2012 RMB'000
LIABILITIES			
Non-current liability			
Borrowings	*26*	**386,526**	–
Current liabilities			
Other payables	*25*	**13,726**	11,693
Borrowings	*26*	**58,974**	–
		72,700	11,693
Total liabilities		**459,226**	11,693
Total equity and liabilities		**1,420,492**	1,057,285
Net current assets		**304,204**	111,525
Total assets less current liabilities		**1,347,792**	1,045,592

Zheng Yu Long	**Zheng Yu Shuang**
Director	*Director*

The notes on pages 48 to 90 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Note	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 *(Note 29(a))*	Statutory reserves RMB'000	Share option reserve RMB'000	Currency translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2012		403,984	550,787	(87,600)	85,902	–	(41)	480,263	1,433,295
Profit and total comprehensive income for the year		–	–	–	–	–	–	277,860	277,860
Employee share-based payments		–	–	–	–	4,063	–	–	4,063
Transfer to statutory reserves	*29(b)*	–	–	–	30,987	–	–	(30,987)	–
Dividends	*14*	–	–	–	–	–	–	(56,280)	(56,280)
Balance at 31 December 2012		403,984	550,787	(87,600)	116,889	4,063	(41)	670,856	1,658,938

	Note	**Share capital RMB'000**	**Share premium RMB'000**	**Merger reserve RMB'000** ***(Note 29(a))***	**Statutory reserves RMB'000**	**Share option reserve RMB'000**	**Currency translation reserve RMB'000**	**Retained earnings RMB'000**	**Total RMB'000**
Balance at 1 January 2013		**403,984**	**550,787**	**(87,600)**	**116,889**	**4,063**	**(41)**	**670,856**	**1,658,938**
Profit and total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**326,382**	**326,382**
Employee share-based payments		**–**	**–**	**–**	**–**	**2,810**	**–**	**–**	**2,810**
Share issued upon exercise of share options		**2,149**	**16,022**	**–**	**–**	**(3,351)**	**–**	**–**	**14,820**
Transfer to statutory reserves	*29(b)*	**–**	**–**	**–**	**38,325**	**–**	**–**	**(38,325)**	**–**
Dividends	*14*	**–**	**–**	**–**	**–**	**–**	**–**	**(72,038)**	**(72,038)**
Balance at 31 December 2013		**406,133**	**566,809**	**(87,600)**	**155,214**	**3,522**	**(41)**	**886,875**	**1,930,912**

The notes on pages 48 to 90 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
Cash flows from operating activities			
Cash generated from operations	*31*	**465,382**	409,470
Income tax paid		**(124,370)**	(70,383)
Net cash generated from operating activities		**341,012**	339,087
Cash flows from investing activities			
Purchase of property, plant and equipment		**(189,129)**	(205,507)
Deposits paid for property, plant and equipment		**(69,061)**	(118,917)
Proceeds from disposal of property, plant and equipment		**3,026**	185
Interest received		**11,781**	6,461
Net cash used in investing activities		**(243,383)**	(317,778)
Cash flows from financing activities			
Proceeds from borrowings		**445,500**	35,120
Repayments of borrowings		**(70,595)**	(117,040)
(Increase)/decrease in pledged bank deposits		**(6,610)**	8,406
Proceeds from issuance of new shares upon exercise of share options		**14,820**	–
Dividends paid		**(72,038)**	(56,280)
Interest paid		**(22,616)**	(7,358)
Net cash generated from/(used in) financing activities		**288,461**	(137,152)
Net increase/(decrease) in cash and cash equivalents		**386,090**	(115,843)
Cash and cash equivalents at the beginning of the year		**406,106**	521,949
Cash and cash equivalents at the end of the year		**792,196**	406,106

The notes on pages 48 to 90 are an integral part of these consolidated financial statements.

1 General information

Labixiaoxin Snacks 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 manufacturing and sale of food and beverages products.

The Company's shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Group unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 24 June 2014.

2 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which collective term includes all International Accounting Standards ("IAS") and related interpretations, as issued by the International Accounting Standards Board (the "IASB").The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

2 Basis of preparation (Continued)

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 standards, amendments and interpretations adopted by the Group

The Group has applied the following new and revised International Accounting standards ("IAS"), International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee interpretations ("IFRIC") for the first time for the current year's consolidated financial statements which do not have any significant impact on the Group's consolidated financial statements.

IAS 1 (Amendments)	Presentation of items of other comprehensive income
IAS 19 (as revised in 2011)	Employee benefits
IAS 27 (as revised in 2011)	Separate financial statements
IAS 28 (as revised in 2011)	Investments in associates and joint ventures
IFRS 7 (Amendments)	Financial instruments: Disclosures – offsetting financial assets and financial liabilities
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint arrangements
IFRS 12	Disclosure of interests in other entities
IFRS 10, 11 and 12 (Amendments)	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: transition guidance
IFRS 13	Fair value measurement
IFRIC – Int 20	Stripping costs in the production phase of a surface mine
IFRS (Amendments)	Annual improvements to IFRS 2009-2011 cycle

Except as described below, the application of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or disclosures set out in these consolidated financial statements.

Amendments to IAS 1 Presentation of items of other comprehensive income

The Group has applied the amendments to IAS 1 Presentation of items of other comprehensive income for the first time in the current year. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section; (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2 Basis of preparation (Continued)

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

The Group has not early adopted the following new standards, amendments to standards and interpretations which have been issued but are not yet effective:

IAS 16 and IAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation[6]
IAS 19 (Amendments)	Defined benefits plans: employee contributions[2]
IAS 32 (Amendments)	Offsetting financial assets and financial liabilities[1]
IAS 36 (Amendments)	Recoverable amount disclosures for non-financial assets[1]
IAS 39 (Amendments)	Novation of derivatives and continuation of hedge accounting[1]
IFRS 7 and IFRS 9 (Amendments)	Mandatory effective date of IFRS 9 and transition disclosures[3]
IFRS 9	Financial instruments[3]
IFRS 10, IFRS 12 and IAS 27 (Amendments)	Investment entities[1]
IFRS 11 (Amendments)	Accounting for acquisitions of interests in joint operations[6]
IFRS 14	Regulatory deferral accounts[5]
IFRS (Amendments)	Annual improvements to IFRS 2010-2012 Cycle[4]
IFRS (Amendments)	Annual improvements to IFRS 2011-2013 Cycle[2]
IFRIC 21	Levies[1]

1 effective for annual periods beginning on or after 1 January 2014
2 effective for annual periods beginning on or after 1 July 2014
3 available for application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised
4 effective for annual periods beginning on or after 1 July 2014, with limited exceptions
5 effective for first annual IFRS financial statements beginning on or after 1 January 2016
6 effective for annual periods beginning on or after 1 January 2016

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 profit or loss and other 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 statement of financial position, 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.

(b) *An associated company*

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.

The Group's interests in an associated company 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).

3 Summary of significant accounting policies (Continued)

3.1 Consolidation (Continued)

(b) An associated company (Continued)

The Group's share of its associated company's post-acquisition profits or losses is recognised in the statement of profit or loss and other 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 equals or exceeds its interests in the associated company, 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 are eliminated to the extent of the Group's interests in the associated company. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of an associated company 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 are recognised in the consolidated statement of profit or loss and other 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.

3.3 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 consolidated statement of profit or loss and other comprehensive income.

Foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income within "other gains, net".

3 Summary of significant accounting policies (Continued)

3.3 Foreign currency translation (Continued)

(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 statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each statement of profit or loss and other 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.

3.4 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 consolidated statement of profit or loss and other 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
Leasehold land classified as finance lease	20 years
Buildings	20 years
Plant and equipment	5 -10 years
Motor vehicles	5 years
Leasehold improvements	5 years

3 Summary of significant accounting policies (Continued)

3.4 Property, plant and equipment (Continued)

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 within "other gains, net" in the consolidated statement of profit or loss and other 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.

3.6 Impairment of investments in subsidiaries, an associated company 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 Summary of significant accounting policies (Continued)

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 statement of financial position.

(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.

3.8.2 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 consolidated statement of profit or loss and other 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 consolidated statement of profit or loss and other comprehensive income within "other 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 consolidated statement of profit or loss and other comprehensive income as part of other income when the Group's right to receive payments is established.

3 Summary of significant accounting policies (Continued)

3.8 Financial assets (Continued)

3.8.2 *Recognition and measurement* (Continued)

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 consolidated statement of profit or loss and other 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 profit or loss and other comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of profit or loss and other 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.

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 consolidated statement of profit or loss and other 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 consolidated statement of profit or loss and other comprehensive income.

3 Summary of significant accounting policies (Continued)

3.8 Financial assets (Continued)

3.8.3 Impairment of financial assets (Continued)

(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 profit or loss and other comprehensive income on equity instruments are not reversed through the consolidated statement of profit or loss and other 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 profit or loss and other comprehensive income.

Impairment testing of the investments in subsidiaries or an associated company is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associated company 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.

3.10 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 statement of financial position, 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.

3 Summary of significant accounting policies (Continued)

3.12 Trade and other payables (Continued)

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 consolidated statement of profit or loss and other 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 the consolidated statement of profit or loss and other comprehensive income in the period in which they are incurred.

3.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss and other 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 end of the reporting period 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 end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

3 Summary of significant accounting policies (Continued)

3.14 Current and deferred income tax (Continued)

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 liabilities is provided on taxable temporary differences arising on investments in subsidiaries and associated company, 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. Generally the group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

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.

3.16 Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets and remaining employees of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss and other comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

3 Summary of significant accounting policies (Continued)

3.17 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.

3.18 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 consolidated statement of profit or loss and other 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 consolidated statement of profit or loss and other comprehensive income on a straight- line basis over the expected lives of the related assets.

3.19 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.

(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 Summary of significant accounting policies (Continued)

3.20 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.

3.21 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 profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

3.22 Related Parties Transactions

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

(1) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(2) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (1).
- (vii) A person identified in (1) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

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.

The Group's currency exposure as at 31 December 2013 and 2012 is as follows:

	RMB RMB'000	HKD RMB'000	USD RMB'000	Total RMB'000
At 31 December 2013				
Financial assets				
Cash and cash equivalents	**789,897**	**2,257**	**42**	**792,196**
Pledged bank deposits	**7,248**	**–**	**8,966**	**16,214**
Trade and other receivables	**320,982**	**–**	**–**	**320,982**
Financial liabilities				
Trade and other payables	**(215,833)**	**(12,233)**	**–**	**(228,066)**
Borrowings	**–**	**(4,485)**	**(445,500)**	**(449,985)**
Net financial assets/(liabilities)	**902,294**	**(14,461)**	**(436,492)**	**451,341**
Currency exposure		**(14,461)**	**(436,492)**	**(450,953)**
At 31 December 2012				
Financial assets				
Cash and cash equivalents	397,890	8,216	–	406,106
Pledged bank deposits	9,604	–	–	9,604
Trade and other receivables	269,517	63	–	269,580
Financial liabilities				
Trade and other payables	(217,236)	(11,725)	–	(228,961)
Borrowings	(70,000)	(5,080)	–	(75,080)
Net financial assets/(liabilities)	389,775	(8,526)	–	381,249
Currency exposure		(8,526)	–	(8,526)

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 2013 and 2012 is as follows:

	RMB	HKD	USD	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2013				
Financial assets				
Cash and cash equivalents	**8,068**	**946**	**32**	**9,046**
Pledged bank deposits	**–**	**–**	**8,966**	**8,966**
Amounts due from subsidiaries	**358,775**	**–**	**–**	**358,775**
Financial liabilities				
Other payables	**(9,135)**	**(4,591)**	**–**	**(13,726)**
Borrowings	**–**	**–**	**(445,500)**	**(445,500)**
Net financial assets/(liabilities)	**357,708**	**(3,645)**	**(436,502)**	**(82,439)**
Currency exposure		**(3,645)**	**(436,502)**	**(440,147)**
At 31 December 2012				
Financial assets				
Cash and cash equivalents	4,118	650	–	4,768
Amounts due from subsidiaries	118,333	–	–	118,333
Financial liabilities				
Other payables	(7,582)	(4,111)	–	(11,693)
Net financial assets/(liabilities)	114,869	(3,461)	–	111,408
Currency exposure		(3,461)	–	(3,461)

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(a) *Market risk* (Continued)

(i) *Currency risk* (Continued)

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

	2013	2012
	Increase/(decrease)	
	Profit after tax	Profit after tax
	RMB'000	RMB'000
The Group		
HKD against RMB		
– strengthened	**(723)**	(426)
– weakened	**723**	426
USD against RMB		
– strengthened	**(21,825)**	–
– weakened	**21,825**	–
The Company		
HKD against RMB		
– strengthened	**(182)**	(173)
– weakened	**182**	173
USD against RMB		
– strengthened	**(21,825)**	–
– weakened	**21,825**	–

(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 2013, 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 2013 would have been RMB 4,500,000 lower/higher (2012: RMB751,000 lower/higher), 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 statement of financial position. 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 21). 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 end of the reporting period. 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 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The tables below analyse the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Within 1 Year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
The Group				
As at 31 December 2013				
Trade and bills payables	**160,849**	**–**	**–**	**160,849**
Accruals and other payables	**100,528**	**–**	**–**	**100,528**
Borrowings	**63,459**	**225,725**	**160,801**	**449,985**
	324,836	**225,725**	**160,801**	**711,362**
As at 31 December 2012				
Trade and bills payables	181,515	–	–	181,515
Accruals and other payables	75,893	–	–	75,893
Borrowings	75,080	–	–	75,080
	332,488	–	–	332,488
The Company				
As at 31 December 2013				
Accruals and other payables	**13,726**	**–**	**–**	**13,726**
Borrowings	**58,974**	**225,725**	**160,801**	**445,500**
	72,700	**225,725**	**160,801**	**459,226**
As at 31 December 2012				
Accruals and other payables	11,693	–	–	11,693
	11,693	–	–	11,693

4 Financial risk management (Continued)

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.

4.3 Fair value estimation

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.

No analysis is disclosed since the Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period. There were no transfers between levels 1 and 2 in both years.

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) Employee benefits – share-based payments

The valuation of the fair value of the share options granted requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the options and the number of share options that are expected to vest. Where the outcome of the number of options that are vested is different, such difference will impact the consolidated statement of profit or loss and other comprehensive income in the subsequent remaining vesting period of the relevant share options.

5 Critical accounting estimates and judgements (Continued)

(c) Estimated provision for impairment of trade receivables

The Group makes provision for impairment of trade receivables based on an assessment of the recoverability of trade receivables. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables and impairment is recognised in the year in which such estimate has been changed.

(d) 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, beverages products and other snacks 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. Beverages products

iv. Other snacks products

CODM assesses the performance of the operating segments based on measure of segment results. Finance income and costs, 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.

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

During the year ended 31 December 2013, none of the individual customer account for 10% or more of the Group's external revenue (2012: none). As at 31 December 2013 and 2012, 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 2013				
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Revenue					
Sales to external customers	1,291,895	235,788	49,701	256,411	1,833,795
Cost of sales	(741,854)	(141,916)	(38,706)	(159,557)	(1,082,033)
Gross profit	550,041	93,872	10,995	96,854	751,762
Results of reportable segments	376,096	62,125	4,304	62,330	504,855

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

Results of reportable segments	504,855
Corporate income	17,706
Corporate expenses	(77,608)
Operating profit	444,953
Finance income	11,781
Finance costs	(7,693)
Profit before income tax	449,041
Income tax expense	(122,659)
Profit for the year	326,382

	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Amortisation of land use rights	2,381	–	935	–	3,316
Depreciation of property, plant and equipment	67,932	–	1,323	6,389	75,644

6 Segment information (Continued)

	Year ended 31 December 2012			
	Jelly products RMB'000	Confectionary products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Revenue				
Sales to external customers	1,140,570	209,665	196,247	1,546,482
Cost of sales	(656,103)	(128,123)	(128,961)	(913,187)
Gross profit	484,467	81,542	67,286	633,295
Results of reportable segments	326,578	57,623	45,562	429,763

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

Results of reportable segments	429,763
Corporate income	11,497
Corporate expenses	(71,124)
Operating profit	370,136
Finance income	6,461
Finance costs	(7,358)
Profit before income tax	369,239
Income tax expense	(91,379)
Profit for the year	277,860

	Jelly products RMB'000	Confectionary products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Amortisation of land use rights	3,317	–	–	3,317
Depreciation of property, plant and equipment	56,125	–	2,798	58,923

Geographical information

During the years ended 31 December 2013 and 2012, the Group mainly operated in the People's Republic of China (the "PRC") and most of the Group's turnover are derived from the PRC and most of the assets of the Group are located in the PRC as at 31 December 2013 and 31 December 2012. No analysis of the Group's result and assets by geographical area is disclosed.

7 Other income

	2013 RMB'000	2012 RMB'000
Rental income	**646**	958
Government subsidy	**6,990**	7,958
	7,636	8,916

8 Other gains, net

	2013 RMB'000	2012 RMB'000
Gain on sales of raw materials and scrap materials	**3,352**	260
Loss on disposal of property, plant and equipment	**(3,603)**	(1,077)
Net exchange gains	**6,718**	2,321
	6,467	1,504

9 Expenses by nature

	2013 RMB'000	2012 RMB'000
Purchases of raw materials, finished goods and consumables	**951,852**	819,486
Changes in inventories of raw materials and finished goods	**(12,570)**	7,365
Advertising and promotion expenses	**191,924**	114,318
Employee benefit expenses (including directors' emoluments) (Note 10)	**108,425**	92,761
Depreciation of property, plant and equipment (Note 16)	**75,644**	58,923
Amortisation of land use rights (Note 15)	**3,316**	3,317
Freight and transportation expenses	**3,691**	52,252
Auditors' remuneration	**3,736**	1,760
Operating leases rentals	**–**	356
Other expenses	**76,927**	36,228
Total cost of sales, selling and distribution and administrative expenses	**1,402,945**	1,186,766

10 Employee benefit expenses (including directors' emoluments)

	2013 RMB'000	2012 RMB'000
Salaries and bonuses	**96,571**	81,716
Employer's contribution to defined contribution plans	**9,044**	6,982
Employee share-based payment	**2,810**	4,063
	108,425	92,761

(a) Directors' and chief executives' emoluments

The emolument of every director and chief executive for the year ended 31 December 2013 is set out below:

Name of directors	Fee RMB'000	Salaries RMB'000	Other benefits RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Executive directors					
Mr. Zheng Yu Long[1]	–	800	–	–	800
Mr. Zheng Yu Shuang[1]	–	800	–	–	800
Mr. Zheng Yu Huan[1]	–	800	–	–	800
Non-executive director					
Mr. Li Hung Kong	159	–	–	–	159
Independent non-executive directors					
Mr. Li Zhi Hai	159	–	–	–	159
Ms. Sun Kam Ching	159	–	–	–	159
Mr. Chung Yau Tong	159	–	–	–	159
	636	2,400	–	–	3,036

(1) Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan are also the Chief Executives of the Group.

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

(a) Directors' and chief executives' emoluments (Continued)

The emolument of every director and chief executive for the year ended 31 December 2012 is set out below:

Name of directors	Fee RMB'000	Salaries RMB'000	Other benefits RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Executive directors					
Mr. Zheng Yu Long(2)	–	800	–	–	800
Mr. Zheng Yu Shuang(2)	–	800	–	–	800
Mr. Zheng Yu Huan(2)	–	800	–	–	800
Non-executive directors					
Mr. Li Hung Kong	160	–	–	–	160
Mr. Li Gang(1)	160	–	–	–	160
Independent non-executive directors					
Mr. Li Zhi Hai	160	–	–	–	160
Ms. Sun Kam Ching	160	–	–	–	160
Mr. Chung Yau Tong	160	–	–	–	160
	800	2,400	–	–	3,200

(1) Resigned on 8 February 2013.

(2) Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan are also the Chief Executives of the Group.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 3 (2012: 3) directors, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 (2012: 2) individuals during the year are as follows:

	2013 **RMB'000**	2012 RMB'000
Salaries, share options and bonuses	**2,289**	2,718
Employer's contribution to defined contribution plans	**17**	18
	2,306	2,736

The emoluments of the remaining 2 individuals who are also the senior management fell within the following bands:

	Number of individuals	
	2013	2012
Nil – HK$1,000,000 (equivalent to Nil – RMB800,000)	**1**	1
HK$2,000,001 – HK$2,500,000 (equivalent to RMB1,600,001 – RMB2,000,000)	**1**	–
HK$2,500,001 – HK$3,000,000 (equivalent to RMB2,000,001 – RMB2,400,000)	**–**	1

During the years ended 31 December 2013 and 2012, none of the directors of the Company or the five highest paid individuals waived or agreed to waive any emoluments.

(c) During the year, no emoluments have been paid to the directors of the 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 income/(costs), net

	2013 **RMB'000**	2012 RMB'000
Interest expense on bank borrowings	**(22,616)**	(7,358)
Less: amounts capitalised on qualifying assets	**14,923**	–
Finance costs	**(7,693)**	(7,358)
Interest income on bank deposits	**11,781**	6,461
Finance income/(costs), net	**4,088**	(897)

12 Income tax expense

	2013 RMB'000	2012 RMB'000
Current income tax – PRC	**129,297**	85,598
Deferred income tax (Note 19)	**(6,638)**	5,781
	122,659	91,379

During the year ended 31 December 2013, the Group did not have any assessable income in Bermuda, BVI and Hong Kong (2012: Nil). The subsidiaries in the PRC are subject to income tax rate of 25% (2012: 25%) on their taxable profit during the year.

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

	2013 RMB'000	2012 RMB'000
Profit before income tax	**449,041**	369,239
Tax calculated at PRC applicable income tax rate 25% (2012: 25%)	**112,260**	92,310
Effects of:		
– Tax concession	**–**	(14,773)
– Different tax rates	**1,234**	1,382
– Income not subject to tax	**(6,171)**	(749)
– Expenses not deductible for tax purposes	**4,944**	4,490
– Withholding tax on unremitted profits	**10,022**	8,165
– Withholding tax on interest income	**1,018**	–
– Others	**(648)**	554
Tax charge	**122,659**	91,379

13 Earnings per share

	2013	2012
Net profit attributable to the equity holders of the Company (RMB'000)	**326,382**	277,860
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	**1,128,649**	1,125,600
Basic earnings per share (RMB per share)	**0.29**	0.25

(a) Basic earnings per share

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

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the net profit attributable to the Company's equity holders and the weighted average number of ordinary shares in issue during the year after adjusting for the dilutive potential ordinary shares in respect of the Company's outstanding share options. The potential ordinary shares in respect of the Company's outstanding share options are dilutive for the year ended 31 December 2013 while they were anti-dilutive for the year ended 31 December 2012.

	2013
Net profit attributable to the equity holders of Company (RMB'000)	**326,382**
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	**1,128,649**
Adjustment for share options ('000)	**2,758**
Weighted average number of ordinary shares outstanding for diluted earnings per share ('000)	**1,131,407**
Diluted earnings per share (RMB per share)	**0.29**

14 Dividends

	2013 RMB'000	2012 RMB'000
Final dividends, proposed, of (2013: Nil; 2012: HKD0.08) per share	**–**	72,038

15 Land use rights

	The Group	
	2013 RMB'000	2012 RMB'000
Cost		
At 1 January	**165,820**	165,820
Additions	**–**	–
At 31 December	**165,820**	165,820
Accumulated amortisation		
At 1 January	**14,898**	11,581
Amortisation	**3,316**	3,317
At 31 December	**18,214**	14,898
Net book amount		
At 31 December	**147,606**	150,922

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

	Land and buildings RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction-in-progress RMB'000	Total RMB'000
Year ended 31 December 2012						
Cost						
At 1 January 2012	416,264	329,161	10,454	–	190,252	946,131
Additions	25,863	105,118	3,382	820	137,762	272,945
Disposals	–	(4,374)	–	–	–	(4,374)
Transfer to/(from)	80,303	–	–	–	(80,303)	–
At 31 December 2012	522,430	429,905	13,836	820	247,711	1,214,702
Accumulated depreciation						
At 1 January 2012	59,091	100,267	8,395	–	–	167,753
Depreciation charge	23,064	34,817	1,042	–	–	58,923
Disposals	–	(3,112)	–	–	–	(3,112)
At 31 December 2012	82,155	131,972	9,437	–	–	223,564
Net book value						
At 31 December 2012	440,275	297,933	4,399	820	247,711	991,138
Year ended 31 December 2013						
Cost						
At 1 January 2013	**522,430**	**429,905**	**13,836**	**820**	**247,711**	**1,214,702**
Additions	**21,976**	**220,927**	**495**	**–**	**46,750**	**290,148**
Disposals	**–**	**(17,803)**	**–**	**–**	**–**	**(17,803)**
Transfer to/(from)	**291,861**	**2,600**	**–**	**–**	**(294,461)**	**–**
At 31 December 2013	**836,267**	**635,629**	**14,331**	**820**	**–**	**1,487,047**
Accumulated depreciation						
At 1 January 2013	**82,155**	**131,972**	**9,437**	**–**	**–**	**223,564**
Depreciation charge	**31,968**	**42,661**	**851**	**164**	**–**	**75,644**
Disposals	**–**	**(11,174)**	**–**	**–**	**–**	**(11,174)**
At 31 December 2013	**114,123**	**163, 459**	**10,288**	**164**	**–**	**288,034**
Net book value						
At 31 December 2013	**722,144**	**472,170**	**4,043**	**656**	**–**	**1,199,013**

During the year, the Group has capitalised borrowing costs amounted to RMB14,923,000 (2012: nil) on qualifying assets.

The land and buildings with carrying values of RMB9,515,000 (2012: RMB10,027,000) were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2013.

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 2013 RMB'000	2012 RMB'000
Unlisted equity investments, at cost	**134,206**	134,206

The following is a list of the principal subsidiaries at 31 December 2013:

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	
	2013	2012
	RMB'000	RMB'000
Current		
Amounts due from subsidiaries	**358,775**	118,333
Non-current		
Loans to subsidiaries	**914,218**	804,697
Provision for impairment	**(4,836)**	(4,836)
	909,382	799,861

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 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	
	2013	2012
	RMB'000	RMB'000
Deferred income tax assets		
Beginning of the year	**6,112**	3,728
Credited to the consolidated statement of profit or loss and other comprehensive income (Note 12)	**17,678**	2,384
End of the year	**23,790**	6,112
Deferred income tax liabilities		
Beginning of the year	**17,410**	9,245
Charged to the consolidated statement of profit or loss and other comprehensive income (Note 12)	**11,040**	8,165
End of the year	**28,450**	17,410

As at 31 December 2013, 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 of 25% (2012: 25%).

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

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 2013, there are temporary differences relating to the retained earnings of the Group's PRC subsidiaries amounted to RMB980,478,000 (2012: RMB635,641,000). Deferred income tax liabilities of RMB59,465,000 (2012: RMB40,439,000), have not been recognised in respect of the tax that would be payable on the distribution of these retained earnings, 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.

20 Inventories

	The Group	
	2013	2012
	RMB'000	RMB'000
Raw materials	**47,540**	40,357
Finished goods	**37,799**	32,412
	85,339	72,769

The cost of inventories recognised as expense and included in cost of sales amounted to RMB939,282,000 (2012: RMB826,851,000).

21 Trade receivables

The Group's sales are generally on credit term ranging from 30 to 90 days. As at 31 December 2013, the ageing analysis of trade receivables, based on invoice date, is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Less than 30 days	**206,575**	199,875
31 days – 90 days	**88,821**	69,342
Over 90 days	**35**	300
	295,431	269,517

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.

As at 31 December 2013, trade receivables of RMB35,000 (2012: RMB300,000) 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	
	2013	2012
	RMB'000	RMB'000
Past due by less than 3 months but not impaired	**35**	300

During the year, no trade receivables were impaired (2012: nil). As at 31 December 2013 and 2012, no trade receivables are considered to be impaired.

The carrying amounts of trade receivables approximate their fair values.

22 Prepayments and other receivables

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayment for purchase of raw materials	**–**	5,624	**–**	–
Prepayment for advertising expenses	**12,816**	511	**–**	–
Other prepayments	**2,967**	4,706	**117**	117
Other receivables and sundry assets (Note)	**25,551**	63	**–**	–
	41,334	10,904	**117**	117

Note:

Other receivables and sundry assets mainly comprised of value-added tax receivables of approximately RMB25,551,000 (2012: nil) as at 31 December 2013.

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

23 Pledged bank deposits

As at 31 December 2013 and 2012, pledged bank deposits of the Group were with initial terms of over three months and pledged to banks as security for bills payable (Note 25) and borrowings (Note 26).

The weighted average effective interest rate of these bank deposits as at 31 December 2013 was 3.15% (2012: 0.35%) per annum.

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

24 Cash and cash equivalents

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**75,395**	163,655	**9,046**	650
Short-term bank deposits	**716,801**	242,451	**–**	4,118
	792,196	406,106	**9,046**	4,768

The weighted average effective interest rate of the Group's short-term bank deposits as at 31 December 2013 was 2.84% (2012: 2.84%) per annum.

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

Cash and cash equivalents of the Group of RMB789,897,000 (2012: RMB397,890,000) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

25 Trade and other payables

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**133,477**	148,717	**–**	–
Bills payable	**27,372**	32,798	**–**	–
Trade and bills payables	**160,849**	181,515	**–**	–
Accrued sales rebates	**33,311**	28,447	**–**	–
Other accrued expenses	**15,368**	24,825	**4,591**	3,831
Directors' fees and emoluments payable	**9,135**	7,862	**9,135**	7,862
Other payables and sundry creditors	**42,714**	14,759	**–**	–
	261,377	257,408	**13,726**	11,693

The credit periods granted by suppliers generally range from 30 to 60 days. As at 31 December 2013, the ageing analysis of trade payables is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Less than 30 days	**114,537**	126,035
31 days – 90 days	**18,012**	22,682
Over 90 days	**928**	–
	133,477	148,717

Bills payable of the Group amounting to RMB27,372,000 (2012: RMB32,798,000) were secured by pledged bank deposits of RMB7,248,000 (2012: RMB9,604,000) (Note 23).

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

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

26 Borrowings

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current	**386,526**	–	**386,526**	–
Current	**63,459**	75,080	**58,974**	–
	449,985	75,080	**445,500**	–

As at 31 December 2013, the maturity of bank borrowings is as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**63,459**	75,080	**58,974**	–
Between 1 and 2 years	**225,725**	–	**225,725**	–
Between 2 and 5 years	**160,801**	–	**160,801**	–
Wholly repayable within 5 years	**449,985**	75,080	**445,500**	–
Over 5 years	**–**	–	**–**	–
Total bank borrowings	**449,985**	75,080	**445,500**	–

On 25 February 2013, the Company has entered into a facility agreement (the "Facility Agreement") with certain banking institutes in relation to a US$75,000,000 term loan facility (the "Facility"). The Facility was charged at a floating interest rate of LIBOR + 3.5% which was re-pricing every 3 months. The Facility was fully utilized during the year ended 31 December 2013, and was pledged by shares of certain wholly-owned subsidiaries of the Company and bank deposit of RMB8,966,000. The Facility has an original term of 36 months commencing from the date of the Facility Agreement. However, subsequent to 31 December 2013, the Company has triggered certain potential event of defaults (Note 34) and the Company and the lenders have been mutually agreed a new repayment schedule to fully repay the Facility in 2015 and the Company has been waived from the potential event of defaults.

As at 31 December 2013, the bank borrowing of RMB4,485,000 was secured by the land and buildings of RMB9,515,000 and charged at HIBOR + 2.25% (2012: the bank borrowing of RMB5,080,000 was secured by the land and buildings of RMB10,027,000). Such borrowing was re-pricing every month.

26 Borrowings (Continued)

All borrowings approximate their carrying amount. The carrying amounts of the borrowings are denominated in the following currencies:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
HK dollar	**4,485**	5,080	**–**	–
Renminbi	**–**	70,000	**–**	–
USD	**445,500**	–	**445,500**	–
	449,985	75,080	**445,500**	–

As at 31 December 2013, there is no short-term bank borrowings; while at 31 December 2012, the short-term bank borrowings RMB70,000,000 were guaranteed by subsidiaries of the Group.

The weighted average effective interest rate of the bank borrowings as at 31 December 2013 was 6.33 % (2012: 7.36%) per annum.

27 Share capital and share premium

Authorised share capital

The total authorised number of ordinary shares of the Company is 5,000,000,000 shares with a par value of US$0.05 per share.

Issued share capital

	Number of shares	Amount		
	Issued share capital	**Share capital**	**Share premium**	**Total share capital and share premium**
		RMB'000	RMB'000	RMB'000
The Company				
As at 1 January 2012, 31 December 2012 and 1 January 2013	1,125,600,000	403,984	550,787	954,771
Exercise of share options during the year	7,000,000	2,149	16,022	18,171
As at 31 December 2013	1,132,600,000	406,133	566,809	972,942

28 Share based payments – the Group and the Company

On 30 March 2012, 15,000,000 share options were granted to certain employees of the Group with an exercisable period from 31 March 2012 to 30 March 2017 at an exercise price of HK$2.68 per share. There are three vesting periods for these share options. The estimated fair value of these share options was approximately RMB8,003,000, based on the Black-Scholes valuation model. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option. The significant inputs into the model are as follows:

Date of grant:	30 March 2012
Exercise price:	HK$2.68 per share
Expected life:	2.57 years-3.79 years
Risk-free rate:	0.28%-0.39%
Expected volatility:	41.03%-45.43%
Expected dividend yield:	2.24%

None of the options granted as stated above were granted to a director, chief executive or substantial shareholder of the Company nor an associate (as defined in the Listing Rules) of any of them. Save as disclosed above, no other options have been granted during the year ended 31 December 2013.

Movement of the share options during the year ended 31 December 2013 are as follows:

	Number of ordinary shares subject to share options granted under the Share option Scheme				
Exercise period	**Outstanding as at 1 January 2013**	**Granted during the year ended 31 December 2013**	**Exercised during the year ended 31 December 2013**	**Lapsed during the year ended 31 December 2013**	**Outstanding as at 31 December 2013**
31 March 2013 to 30 March 2017	7,000,000	–	(7,000,000)	–	–
31 March 2014 to 30 March 2017	5,000,000	–	–	–	5,000,000
31 March 2015 to 30 March 2017	3,000,000	–	–	–	3,000,000
Total	15,000,000	–	(7,000,000)	–	8,000,000

The total expense for share options granted to directors and employees are recognised as "administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

29 Reserves

The Group

(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.

The Company

	Share option reserve RMB'000
Balance at 1 January 2013	4,063
Employee share-based payments	2,810
Exercise of share options	(3,351)
Balance at 31 December 2013	3,522

30 Accumulated losses/retained earnings

Movements in (accumulated losses)/retained earnings of the Company are as follows:

	2013 **RMB'000**	2012 RMB'000
Beginning of the year	**86,758**	74,352
Net (loss)/profit for the year	**(29,918)**	68,686
Dividends (Note 14)	**(72,038)**	(56,280)
End of the year	**(15,198)**	86,758

The loss attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB29,918,000 (2012: profit of RMB68,686,000).

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

31 Cash generated from operations

	2013 RMB'000	2012 RMB'000
Profit for the year	**326,382**	277,860
Adjustments for:		
– Income tax expense	**122,659**	91,379
– Amortisation and depreciation	**78,960**	62,240
– Loss on disposal of property, plant and equipment	**3,603**	1,077
– Interest income	**(11,781)**	(6,461)
– Interest expense	**7,693**	7,358
– Employee share-based payments	**2,810**	4,063
Operating cash flow before working capital changes	**530,326**	437,516
Change in working capital		
– Receivables and prepayments	**(56,344)**	(18,989)
– Inventories	**(12,570)**	7,365
– Trade and other payables	**3,970**	(16,422)
Cash generated from operations	**465,382**	409,470

32 Commitments

Capital commitments

As at 31 December 2013, the Group had the following capital commitments in respect of land use right and property, plant and equipment:

	The Group	
	2013 RMB'000	2012 RMB'000
Authorised but not contracted for		
– Land use right	**50,000**	–
Contracted but not provided for		
– Property, plant and equipment	**7,676**	135,208
	57,676	135,208

33 Material 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:

Key management personnel compensation:

	The Group	
	2013	2012
	RMB'000	RMB'000
Directors' fee	**636**	800
Salaries and other employee benefits	**5,200**	5,542
	5,836	6,342

34 Events after the reporting period

In March 2014, an article published by a magazine in the PRC contained certain allegations or comments on the Group (the "Allegations"). In response to the Allegations, the then auditors of the Company, PricewaterhouseCoopers ("PwC") requested to perform additional assurance work in order to finalise the audited accounts of the Group for the year ended 31 December 2013. The Company was not able to release the result announcement for the year ended 31 December 2013 by end of March 2014, the despatch of annual report of the Company for 2013 was also postponed consequently.

In May 2014, PwC has resigned as auditors of the Company and the board of directors has appointed HLB Hodgson Impey Cheng Limited as the new auditors of the Company to fill the vacancy immediately following the resignation of PwC and to hold office until the conclusion of the forthcoming annual general meeting of the Company. According to terms of the Facility (Note 26), the captioned events constituted a potential event of default. Nevertheless, the lenders of the Term Loan have waived the potential event of default and the Company has agreed to repay in full the term loan by not later than 25 February 2015 according to a revised repayment schedule. As at the reporting date, the borrowings will be re-classified to current liabilities.

35 Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2013 and 2012.