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 2014

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)*
Ren Yunan

Independent Non-Executive Directors

Li Zhi Hai
Sun Kam Ching
Chung Yau Tong

COMPANY SECRETARY

Chan Yee Lok

AUTHORIZED REPRESENTATIVES

Zheng Yu Shuang
Chan Yee Lok

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

Corporate Information (Continued)

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 ADVISOR

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
Hong Kong

PRINCIPAL BANKERS

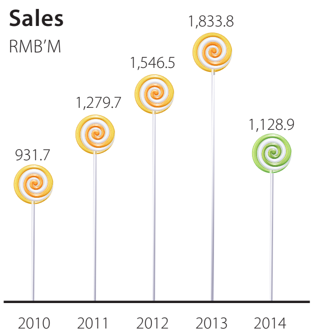
Construction Bank of China, Jinjiang Branch
Construction Bank Building
Zeng Jin Area, Qing Yang
Jinjiang, Fujian
PRC

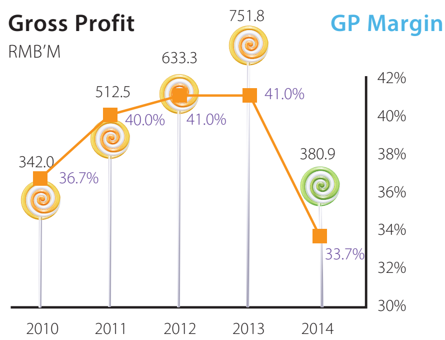
Bank of Communications, Quanzhou Branch
550 Fengze Street
Quanzhou, Fujian
PRC

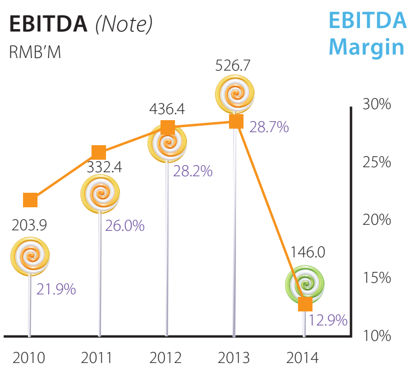
China CITIC Bank, Quanzhou Branch
1-2/F, Renmin Yinhang Building
Quanzhou, Fujian
PRC

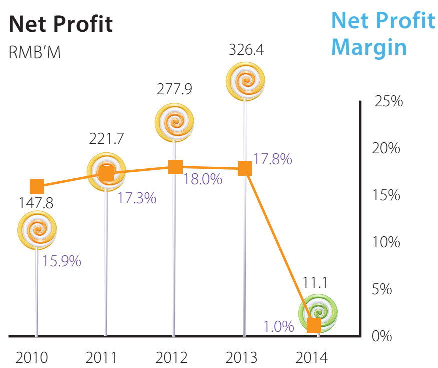
Agricultural Bank of China,
Tianjin Wuqing Branch
Jinrong Building
Northern Xinhua Road
Yangcun Town
Wuqing Area, Tianjin
PRC

Financial Highlights

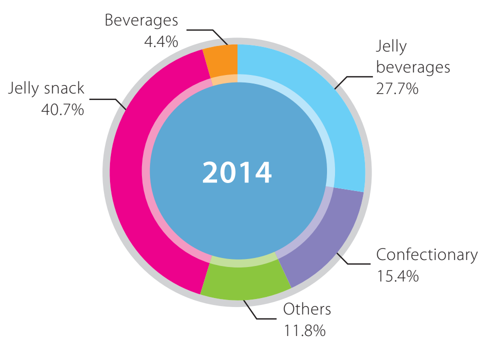


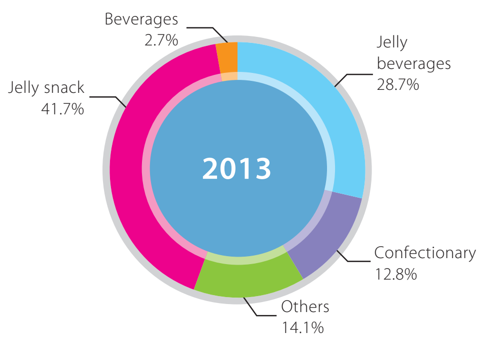




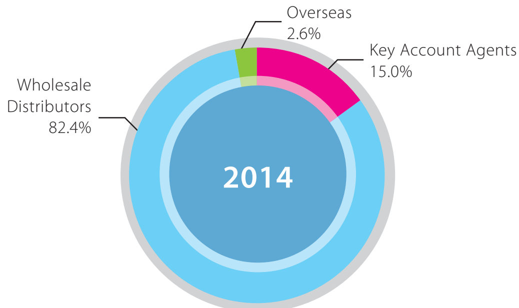


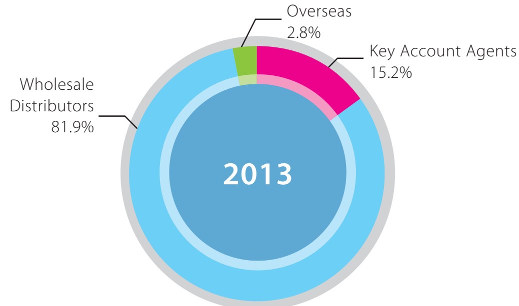
Sales by Products





Sales by Distribution Channels





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

Financial Summary

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales	**1,128,925**	1,833,795	1,546,482	1,279,712	931,680
Gross profit	**380,873**	751,762	633,295	512,499	341,998
Profit before income tax	**28,608**	449,041	369,239	276,326	160,857
Income tax expense	**(17,494)**	(122,659)	(91,379)	(54,630)	(13,019)
Profit and total comprehensive income for the year	**11,114**	326,382	277,860	221,696	147,838

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**1,536,051**	1,472,290	1,267,089	1,003,783	691,154
Current assets	**739,133**	1,230,514	768,900	881,525	302,583
Total assets	**2,275,184**	2,702,804	2,035,989	1,885,308	993,737
Equity					
Total equity	**1,946,585**	1,930,912	1,658,938	1,433,295	653,702
Liabilities					
Non-current liability	**28,733**	414,976	17,410	9,245	7,011
Current liabilities	**299,866**	356,916	359,641	442,768	333,024
Total liabilities	**328,599**	771,892	377,051	452,013	340,035
Total equity and liabilities	**2,275,184**	2,702,804	2,035,989	1,885,308	993,737

Chairman's Statement

Dear shareholders,

I am pleased to present the Annual Report of the Company for the year ended 31 December 2014 and extend my gratitude to all the shareholders on behalf of the Board of Labixiaoxin Snacks Group Limited.

Year 2014 has been an extraordinary year and is the most challenging year for us since we started the business in 2000. In March 2014, CCTV reported our gummy candies were contaminated by toxic gelatin (the "Toxic Gelatin Incidence"). With a view to restoring our consumers' confidence, our management team had response swiftly to this allegation. On the one hand, we have sent our different series of products to Fujian Food and Drug Administration (福建省食品藥品監督管理局) ("FFDA") to have a thorough testing to prove our products are free of toxic gelatin. We had received a quality assurance confirmation from FFDA before the end of March 2014 confirming that "Labixiaoxin" products are in compliance with the relevant food quality standards in the PRC. On the other hand, the Board formed a Special Review Committee, comprising all the independent non-executive directors of the Company, to conduct an independent special review on the Group's product quality. Based on the findings under the product quality legal due diligence conducted by Jingtian & Gongcheng Law Firm, the Special Review Committee is of the view that our products are safe and of high quality.

Although evidences showed that our products are free of toxic gelatin or other quality issues, our financial performance had been severely affected by the negative publicity of Toxic Gelatin Incidence. The Group recorded a year-to-year decrease in turnover for the first time in year 2014. The Group's turnover for the year ended 31 December 2014 was RMB1,128.9 million, a decrease of 38.4% from the year ended 31 December 2013. The gross profit margin and EBITDA margin of the Group for the year ended 31 December 2014 decreased by approximately 7.3 percentage points and 15.8 percentage points, as compared to year 2013, while the net profit of the Group for the year ended 31 December 2014 was RMB11.1 million which was significantly lower than year 2013. Such significant decrease was primarily attributable to the Toxic Gelatin Incidence.

Chairman's Statement (Continued)

While the Group was facing with significant challenges after the Toxic Gelatin Incidence, we are committed to provide full support to our distributors during this difficult period. The Group accepted a sales return of our products of RMB133.3 million from our distributors in spite of the fact that our products are free of quality issues. In addition, we had granted one-off sales discounts to certain distributors to promote sales during the Toxic Gelatin Incidence. Although these measures would reduce the profit margin of the Group, we believed that they will create stronger bonding between us and our distributors and enhance business cooperation in the future. With the help of our sales team and distributors, the Group's products were back on shelves of retail channels since the second quarter of 2014. On top of the measures mentioned above, the Group had increased the spending on advertising and promotion in year 2014 by 13.2% when compared with year 2013 to reshape our product image, increase our market exposure and promote our new products. In November 2014, the Group has also launched lactic acid bacteria series jelly and beverages products as a new series to its product portfolio. We believe all these measures can help us to regain our market shares and bring us to a new era.

The Group did not stop its expansion plan in this difficult year. During the year ended 31 December 2014, we have spent RMB164.7 million in capital expenditure mainly for the expansion of production lines for the beverages products in production plant at Anhui Province, the PRC. The new production lines were mainly for tetra-pack beverages products and has commenced test running during the year. We believe that the beverages segment will become a new growing point of our business in the medium term.

In 2013, we had secured a 3-year US Dollar syndicated bank loan ("Syndicated Loan") in Hong Kong. The proceeds were mainly used in expansion of our production capacity, in particular the beverages products. In May 2014, our former auditors, PricewaterhouseCoopers ("PwC") has resigned as auditors of the Company and the Board has appointed HLB Hodgson Impey Cheng Limited as the new auditors of the Company to fill the vacancy immediately following the resignation of PwC. According to terms of the Syndicated Loan, this event constituted a potential event of default. Nevertheless, the lenders of the Syndicated Loan have waived the potential event of default and the Company has agreed to repay in full the Syndicated Loan by not later than 25 February 2015 according to a revised repayment schedule. As at the date of this report, all the Syndicated Loan had been settled.

Chairman's Statement (Continued)

Thanks to our solid financial foundation built up in the previous years, our cash flows and financial position remain strong while we have spent RMB164.7 million in CAPEX and RMB334.7 million in bank loan repayment in year 2014. During the year end 31 December 2014, the Group has generated RMB118.2 million operating cash inflow which is encouraging in such extraordinary year. As at 31 December 2014, the Group was in net cash position and the gearing ratio was only 5.9%.

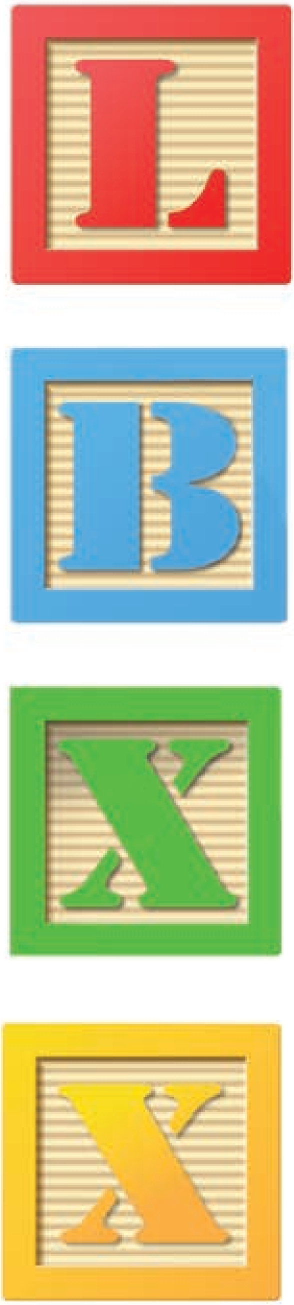
The Toxic Gelatin Incidence had affected the entire industry, including the Group's market competitors and ourselves. It is contemplated that the extraordinary market situation will lead to a market consolidation. The Group considers the extraordinary market situation presented an opportunity to expedite the Group's market share expansion. Therefore, the Group will proactively increase its media exposure and collaborating with distributors and retailers. The Group will also continue to upgrade its product series to offer a better choice to the consumers. Although this would result in short term pressure on the Group's financial performance, we consider the expansion is necessary and is beneficial to the long term development of the Group's business. We sincerely believe that the worst time of the Group was over. Although the road of recovery is still long and challenging, we are cautiously optimistic to the medium to long term of the business.

The Group cannot sail through the difficulties without a strong management team. Therefore I would like to take this opportunity to thank my board of directors and my best team of colleague for providing me with unceasing support during this challenging year. 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®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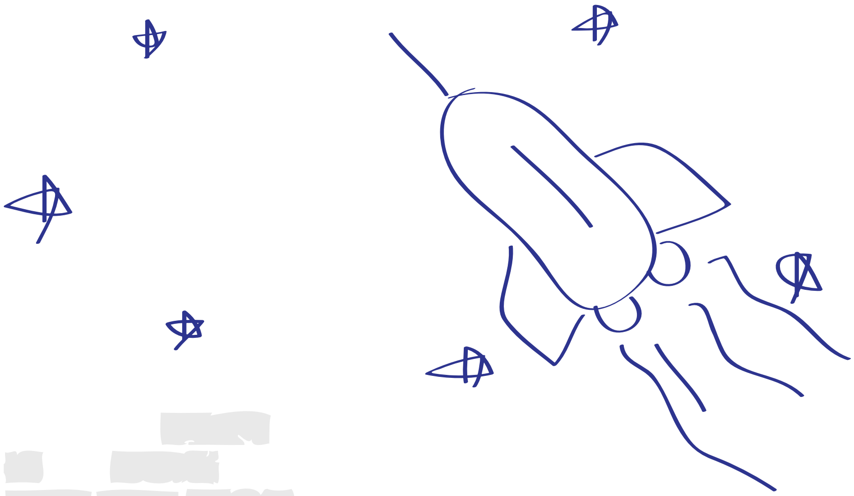


小新乳果
香蕉味
牛奶饮品
好喝就是
yummy
Banana
Flavored Milk Drink
香蕉味牛奶饮料

蜡笔小新
Larbee
Finest Selection
CHOCO
燕麦巧克力
CHEWY BARS
巧克力制品
规格：150克
小新乳果
XIAO XIN RU GUO
草莓味
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Management Discussion and Analysis

OVERVIEW

During the year under review, the Group reported sales of approximately RMB1,128.9 million which dropped by 38.4% as compared with last year. Such significant decrease was primarily attributable to the reporting of certain media in the PRC, including the CCTV news, in mid-March 2014 in relation to the use of toxic gelatin by certain enterprises in their food production and alleged contamination of gummy candy of "*Labixiaoxin*" and other brands by toxic gelatin used in the production process (the "**Toxic Gelatin Incidence**"). While the sales of gummy candy accounted for an insignificant proportion of the total sales of the Group, as a result of the Toxic Gelatin Incidence, certain retailers had requested the Group to remove all "*Labixiaoxin*" products from their shelves, and the Group has recorded a sales return of the Group's products in the amount of RMB133.3 million during the year. Furthermore, the Group has granted additional one-off sales discounts to certain distributors to promote sales upon the occurrence of the Toxic Gelatin Incidence, which in turn reduced the gross profit margin of the Group. As a result, the gross profit margin and EBITDA margin of the Group for the year ended 31 December 2014 decreased by approximately 7.3 percentage points and 15.8 percentage points, as compared to 2013, while the net profit of the Group for the year ended 31 December 2014 was RMB11.1 million which was significantly lower than 2013.

On 25 March 2014, the Group received a quality assurance confirmation from Fujian Food and Drug Administration (福建省食品藥品監督管理局) confirming that "*Labixiaoxin*" products are in compliance with the relevant food quality standards in the PRC. The Group's Special Review Committee, comprising all the independent non-executive directors of the Company, also conducted independent special review on the Group's product quality, based on the findings under the product quality legal due diligence conducted by Jingtian & Gongcheng Law Firm. As at the date of this report, the Group's products are back on shelves and available in the retail channels and are accessible by the consumers.

Management Discussion and Analysis (Continued)

SALES

Sales for 2014 had decreased by 38.4% to RMB1,128.9 million when compared with 2013. Though the sales dropped during 2014, the expansion of the distribution network continued throughout the year under review. As at 31 December 2014, the Group had a total number of 398 wholesale distributors and key account agents, the sales generated from the new distributors, net of terminated distributors, represented 3.2% of the total domestic sales in 2014. Sales via key account agents was RMB168.8 million or 15.3% of total domestic sales and sales via wholesale distributors was RMB931.0 million or 84.7% of total domestic sales.

Jelly products

Sales of jelly products had decreased by 40.2% from RMB1,291.9 million in 2013 to RMB772.7 million in 2014. Such decrease was primarily due to sales return, additional one-off sales discounts given to the distributors during the period and weak consumer demand on jelly products after the Toxic Gelatin Incidence. Sales attributable to jelly snacks and jelly beverages products decreased by 39.8% to RMB460.6 million and 40.7% to RMB312.1 million respectively. In November 2014, the Group has launched lactic acid bacteria series jelly and beverages products as a new series to its product portfolio. This new series of products has been well received by the customers.

Confectionary products

Sales of confectionary products decreased by 26.4% to RMB173.6 million in 2014 mainly due to sales return during the year and weak consumer demand as a result of the Toxic Gelatin Incidence.

Beverages products

Sales of beverages products was amounted to RMB49.7 million in 2014, representing 4.4% of the total sales of the Group. Despite the impact of the Toxic Gelatin Incidence on the Group's products under the brandname "*Labixiaoxin*", the sales of "Xiaoxin Ru Guo" flavored milk remained promising. The Group has launched chocolate and probiotic flavors tetra-pack during the year and has been well received by the market.

Other snacks products

Sales of other snacks products decreased by 48.2% to RMB132.9 million which was mainly due to weak consumer demand on traditional snacks products after the Toxic Gelatin Incidence.

COST OF SALES AND GROSS PROFIT

Cost of sales decreased by 30.9% to RMB748.1 million in 2014 which was consistent with the decrease in sales volume. Gross profit decreased by 49.3% to RMB380.9 million in 2014 which was mainly due to sales return and one-off sales discount given to the distributors during the year. Costs of most of the major raw materials were fairly stable as compared with last year.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by 10.9% to RMB273.8 million in 2014 despite of the decrease in sales. This was primarily due to increased advertising and promotion expenses by 13.2% to RMB217.3 million during the year under review. The general market demand on the Group's products was weak since the Toxic Gelatin Incidence, the Group, as with other market peers, was facing similar challenges. Nonetheless, the Group considered the Toxic Gelatin Incidence an opportunity to expand its market shares and continuously enhanced the media exposure and arranged more on-site promotion under such difficult environment with a view to delivering a positive message to the consumers and attracting more attention in the market. In addition, the Group has also launched lactic acid bacteria series jelly and beverages products as a new series to its product portfolio in November 2014 which entail greater media coverage.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 21.2% to RMB89.7 million in 2014 which was mainly due to the operating expenses in the new production plant at Anhui Province, the PRC and the share options expenses attributable to the granting of 33,000,000 share options to certain employees in September 2014 of RMB6.7 million.

OTHER (LOSSES)/GAINS, NET

Balance primarily comprised of net exchange (losses)/gains, loss on disposal of machinery and equipment and net gain from the sales of raw materials and scrap materials. During the year 2014, the Group incurred other net losses of RMB6.2 million, which was mainly attributable to the exchange loss as a result of bank loan settlement during the year.

Management Discussion and Analysis (Continued)

INCOME TAX EXPENSE

During the year under review, the Group's income tax expense decreased by 85.7% to RMB17.5 million, which was mainly due to drop in taxable profits of the Group as a result of sales return, one-off sales discounts and weak market demand on the Group's products since the Toxic Gelatin Incidence. The effective tax rate increased to 61.2% mainly because the Group has higher proportion from offshore expenses which were not tax deductible.

NET PROFIT FOR THE YEAR

The net profit of the Group was RMB11.1 million for 2014, which was significantly lowered than 2013. This was mainly due to impact of the Toxic Gelatin Incidence, which had affected the Group's sales and gross profit significantly. The Group, on the other hand, continuously increased its advertising and promotional expenses to expand its market share under this extraordinary situation. Consequently, the Group's short term financial performance was affected.

FINANCIAL REVIEW

Financial resources and liquidity

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

As at 31 December 2014, the bank balances and pledged bank deposits amounted to RMB416.1 million, representing a decreased of RMB392.3 million as compared with the balance as at 31 December 2013. The decrease was mainly due to repayment of bank loans of RMB334.7 million and the capital expenditure of the Group of RMB164.7 million. The Group has recorded a cash inflow from operation of RMB118.2 million which was RMB222.8 million less than the year ended 31 December 2013 mainly due to the Toxic Gelatin Incidence. However, despite the extraordinary market conditions subsequent to the Toxic Gelatin Incidence, the Group maintained a net cash position as at 31 December 2014. As at 31 December 2014, 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. The Group's gearing ratio (total borrowings divided by total equity) as at 31 December 2014 decreased to 5.9% (31 December 2013: 23.3%).

The Directors believe that the Group has maintained sufficient cash and available banking facilities for its working capital requirements and for capitalizing on any potential investment opportunities in the future. The Group will, from time to time, make prudent financial arrangements and decisions to address changes in the domestic and international financial environment.

Management Discussion and Analysis (Continued)

Cash flow

The Group recorded net cash inflow from operating activities of RMB118.2 million in 2014, a decrease of 65.3% from 2013, mainly due to poor business performance after the Toxic Gelatin Incidence. The Group has also engaged in investing activities of RMB147.4 million in 2014 mainly for the expansion of production lines for the beverages products. In addition, the Group has net cash outflow from financing activities of RMB351.3 million in 2014 mainly due to repayment of bank loans of RMB334.7 million.

Capital expenditure

During the year, the Group has expended RMB164.7 million in capital expenditure mainly for the expansion of production lines for the beverages products in production plant at Anhui Province, the PRC. The new production lines were mainly for tetra-pack beverages products and has commenced test running during the year.

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

Inventory analysis

The Group's inventories primarily consist of finished goods of jelly products, confectionary products, beverages products and other snacks products, as well as raw materials and packaging materials. As at 31 December 2014, the balance increased by RMB8.1 million from the beginning of the year mainly due to more raw materials were procured for the sales orders of coming Chinese New Year. The inventories turnover days for 2014 and 2013 were 41 days and 23 days, respectively.

Trade receivables

Trade receivables mainly represent the balances due from wholesale distributors and key account agents. The Group typically sells its products on credit and grants a 30-day credit period to most of its wholesale distributors and a 90-day credit period to its key account agents. Such balance decreased by RMB120.1 million from the beginning of the year mainly due to weaker sales performance in 2014 as a result of the Toxic Gelatin Incidence. The trade receivables turnover days for 2014 and 2013 were 61 days and 45 days, respectively.

Management Discussion and Analysis (Continued)

Trade payables

Trade payables mainly represent the balances due to the Group's suppliers who generally grant credit terms ranging from 30 days to 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 for 2014 and 2013 were 57 days and 57 days, respectively.

Borrowings

As at 31 December 2014, the outstanding balance under the Facility Agreement (as defined below) was amounted to RMB111,260,000. The amount was settled in full subsequent to the year end.

Charges on assets

As at 31 December 2014, the Group had the following charges assets:

(i) pledged bank deposits of RMB4.4 million (31 December 2013: RMB16.2 million);

(ii) land and building with net asset value of RMB9.0 million was pledged as security for mortgage loan (31 December 2013: RMB9.5 million); and

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

Contingent liabilities

As at 31 December 2014, the Group had no contingent liabilities (31 December 2013: Nil).

Foreign exchange fluctuations

The Group earns revenue and incur costs and expenses mainly in Renminbi. The Group is exposed to certain foreign exchange fluctuation arising from the exposure of Renminbi against Hong Kong dollar and US dollar. However, the Directors do not anticipate any significant foreign exchange loss as a result of changes in exchange rate between Hong Kong dollar, US dollar and Renminbi in the foreseeable future.

Management Discussion and Analysis (Continued)

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2014, the Group had approximately 1,900 employees and total remuneration expenses for 2014 amounted to RMB109.1 million including amortisation cost of share options in the amount of RMB8.6 million. The employees' salaries are reviewed and adjusted annually based on employees' 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 September 2014, the Group granted 33,000,000 share options to certain employees of the Group with an exercise period from 1 October 2014 to 30 September 2019 at an exercise price of HK$1.19 per share. All these share options were immediately vested. As at 31 December 2014, all these share options were not yet exercised.

PROSPECT

The Toxic Gelatin Incidence had directly affected the Group's brand image and consumer sentiment on jelly, candies and certain traditional snacks in the community. Although the relevant government authority in the PRC had confirmed that "*Labixiaoxin*" products had complied with the necessary food safety standards in the PRC, the Group's sales had been negatively affected. The Toxic Gelatin Incidence had affected the entire industry, including the Group's market competitors as well as the Group. It is contemplated that the extraordinary market situation will lead to a market consolidation. The Group considers the extraordinary market situation presented an opportunity to expedite the Group's market share expansion. Therefore, the Group had proactively increased its media exposure and collaborating with distributors and retailers to arrange more on-site promotional activities. The Group is also upgrading its product series to offer a better choice to the consumers e.g. the new lactic acid bacteria series jelly and beverages products. Although this would result in short term pressure on the Group's financial performance, the Directors consider the expansion beneficial to the long term development of the Group's business. The Group is cautiously optimistic to the medium to long term of the business.

Biographical Details of Directors and Senior Management

DIRECTORS

ZHENG YU LONG — Chairman and Executive Director

Mr. Zheng Yu Long, aged 49, 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 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 Group 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 14 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 46, 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 19 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 44, 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 16 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.

Biographical Details of Directors and Senior Management (Continued)

LI HUNG KONG — Vice Chairman and Non-Executive Director

Mr. Li Hung Kong, aged 46, 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 18 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.

REN YUNAN — Non-Executive Director

Mr. Ren Yunan, aged 39, is a non-executive Director. He was appointed as the non-executive Director on 3 February 2015. Mr. Ren is currently an independent non-executive director of China Child Care Corporation Limited (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), stock code 1259) and an independent director of Tiger Media, Inc. (a company listed on New York Stock Exchange AMEX with stock code IDI). During the period from May 2013 to November 2013, Mr. Ren served as an independent non-executive director of Vision Fame International Holding Limited (a company listed on the Main Board of the Stock Exchange, stock code 1315). Mr. Ren graduated from Peking University with a bachelor's degree in law in 1997 and received a master's degree in law from Harvard Law School in 1999. Mr. Ren is a non-practicing solicitor in Hong Kong and is qualified to practice law in New York State, the United States of America.

LI ZHI HAI — Independent Non-Executive Director

Mr. Li Zhi Hai, aged 60, 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. 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 has been serving as the officer and secretary general of National Food Production Association (全國食品產業化委員會), secretary general of National Health and Industry Working Committee (全國健康產業工作委員會), officer of Ecological Health and Industry Development Committee of China (中國生態健康產業發展委員會) and deputy head of Health and Industry Office for National Development and Reform Commission (國家發改委健康產業辦) since 2007.

SUN KAM CHING — Independent Non-Executive Director

Ms. Sun Kam Ching, aged 42, is the independent non-executive Director. She was appointed as an independent non-executive Director on 23 September 2011. Ms. Sun has over 16 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.

Biographical Details of Directors and Senior Management (Continued)

CHUNG YAU TONG Independent Non-Executive Director

Mr. Chung Yau Tong, aged 42, is the independent non-executive Director. He was appointed as an independent non-executive Director on 23 September 2011. Mr. Chung has 20 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 42, is our head of corporate finance since November 2014. He is responsible for our investor relations and corporate finance matters. Mr. Yap joined us as our financial controller in 2003 and was appointed Chief Financial Officer and Company Secretary in 2011. 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. Chan Yee Lok, aged 40, is our Chief Financial Officer and Company Secretary since November 2014. He is responsible for our accounting, finance and company secretarial matters. Prior to joining us in August 2014, Mr. Chan had worked in international accounting firms and companies listed on the Main Board of the Stock Exchange and possessed over 17 years of accounting, financing, auditing and company secretarial experience. Mr. Chan graduated from City University of Hong Kong with a Bachelor's Degree with honours in Accountancy in 1997. He is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

Mr. Lian Xi, aged 52, is the head of our sales and marketing department. He is responsible for the overall sales and marketing of our products. He has over 16 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 50, 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 16 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 44, 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 16 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.

Corporate Governance Report

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 2014.

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**"), the Company has complied with all the code provisions as set out in the CG Code throughout the year ended 31 December 2014.

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 eight members in total, with three executive directors, two non-executive directors and three independent non-executive directors.

Corporate Governance Report (Continued)

The composition of the Board during the year ended 31 December 2014 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)*
Mr. Ren Yunan	*(appointed on 3 February 2015)*

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 18 to 20 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 2014, 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 directors 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 2014, 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 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.

Corporate Governance Report (Continued)

Directors' Attendance Records

During the year ended 31 December 2014, 11 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 2014 annual general meeting (the "**2014 AGM**") during the year ended 31 December 2014 are set out below:

	Attendance/Number of Meetings	
Name of Director	**Board Meetings**	**2014 AGM**
Mr. Zheng Yu Long	11/11	1/1
Mr. Zheng Yu Shuang	11/11	1/1
Mr. Zheng Yu Huan	11/11	1/1
Mr. Li Hung Kong	8/11	1/1
Mr. Li Zhi Hai	8/11	1/1
Ms. Sun Kam Ching	8/11	1/1
Mr. Chung Yau Tong	8/11	1/1

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 2014, there was one in-house seminar conducted in connection with directors' duties, corporate governance practices and disclosure requirements on inside information 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 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.

Name of Director	Types of training
Mr. Zheng Yu Long	B
Mr. Zheng Yu Shuang	B
Mr. Zheng Yu Huan	B
Mr. Li Hung Kong	B
Mr. Li Zhi Hai	A,B
Ms. Sun Kam Ching	A,B
Mr. Chung Yau Tong	A,B

A: attending external seminars and/or conferences
B: reading newspapers, journals and updates relating to the economy, general business, director's training and responsibilities etc.

During the year ended 31 December 2014, 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 2014.

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 2014, 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 2014, 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 2014 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.

Corporate Governance Report (Continued)

During the year ended 31 December 2014, 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 the external auditor;
- 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 2014 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 2014.

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 2014. 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 pages 41 and 42.

During the year ended 31 December 2014, the Group's external auditor provided the following services to the Group:

Type of Services	**Service fees RMB'000**
Statutory audit services	1.091
Non-audit services – taxation	19
Total	1,110

Corporate Governance Report (Continued)

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 2014 ("**AGM**") will be held on Friday, 29 May 2015. 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 to 7th Floor, AT Tower, 180 Electric Road, North Point, Hong Kong or by email to *1262@lbxxgroup.com*.

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 investor conferences/meetings. 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".

Directors' Report

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 2014.

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 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 43.

DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2014 (2013: Nil).

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 Wednesday, 27 May 2015 to Friday, 29 May 2015 (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 Tuesday, 26 May 2015.

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 2014 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 28 to the consolidated financial statements.

RESERVES

The movements in the reserves of the Group during the year are set out on page 48 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 Directors:

Mr. Li Hung Kong *(Vice-chairman)*
Mr. Ren Yunan *(appointed on 3 February 2015)*

Independent Non-Executive Directors:

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

In accordance with bye-law 84 of the Company's Bye-law, Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Chung Yau Tong shall retire from office as Directors by rotation at the forthcoming annual general meeting, whereas Mr. Ren Yunan shall retire at the forthcoming annual general meeting pursuant to bye-law 83(2) of the Company's Bye-law. All retiring Directors, being eligible for re-election, will offer themselves for re-election at the forthcoming annual general meeting.

Biographical details of Directors are set out on pages 18 to 20 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 2014, 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	54.1%	*1*
	Beneficial owner	115,198,060	10.2%	*2*
Zheng Yu Shuang	Interest of a controlled corporation	610,915,527	54.1%	*1*
Zheng Yu Huan	Interest of a controlled corporation	610,915,527	54.1%	*1*
Li Hung Kong	Interest of a controlled corporation	610,915,527	54.1%	*1*
Ren Yunan	Interest of a controlled corporation	100,000,000	8.9%	*3*

Notes:

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

(2) In addition to the 610,915,527 Shares held through Alliance Holding, Zheng Yu Long is also personally and beneficially interested in 115,198,060 Shares.

(3) Ms. Lin Ying, the spouse of Ren Yunan, is the sole director of and interested in the entire issued share capital of Thriving Market Limited. Accordingly, Ren Yunan is deemed to be interested in the entire issued share capital of Thriving Market Limited by virtue of SFO. As at 31 December 2014, Thriving Market Limited was holding 100,000,000 unlisted warrants of the Company issued on 1 September 2014 pursuant to the subscription agreement dated 18 August 2014 between the Company and Thriving Market Limited. Upon the full exercise of the subscription rights attaching to such 100,000,000 warrants, Thriving Market Limited will hold approximately 8.14% of the enlarged issued share capital of the Company (assuming that there will not be any change in the issued share capital of the Company before the exercise of such subscription rights).

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

Name of Director	Name of associated corporation	Total number of shares held in associated corporation	Approximate percentage of issued share capital of associated corporation
Zheng Yu Long	Alliance Holding	28	28%
Zheng Yu Shuang	Alliance Holding	28	28%
Zheng Yu Huan	Alliance Holding	28	28%
Li Hung Kong	Alliance Holding	16	16%
Ren Yunan	Thriving Market Limited	1	100%

Save as disclosed above, as at 31 December 2014, 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.

Directors' Report (Continued)

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 approximately 10.0% 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 2014:

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 2014	Approximate percentage of shareholding upon the exercise of the options
Other employees	30 March 2012	15,000,000	–	–	8,000,000	0.7%
Other employees	30 September 2014	33,000,000	33,000,000	–	33,000,000	2.9%
Total		48,000,000	33,000,000	–	41,000,000	3.6%

On 30 September 2014, 33,000,000 share options were granted to certain employees of the Group with an exercisable period from 1 October 2014 to 30 September 2019 at an exercise price of HK$1.19 per Share. All of these share options were immediately vested.

During the year ended 31 December 2014, 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 2014, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name of shareholder	Beneficial owner	Interest of a controlled corporation	Investment manager	Total interests in shares *(Note 1)*	Approximate percentage shareholding	*Note*
Alliance Holding	610,915,527	–	–	610,915,527 (L)	54.1%	*2*
Zheng Yu Long	115,198,060	610,915,527	–	726,113,587 (L)	64.3%	*2*
Zheng Yu Shuang	–	610,915,527	–	610,915,527 (L)	54.1%	*2*
Zheng Yu Huan	–	610,915,527	–	610,915,527 (L)	54.1%	*2*
Li Hung Kong	–	610,915,527	–	610,915,527 (L)	54.1%	*2*
Artisan Partners Asset Management Inc.	61,141,000	–	–	61,141,000 (L)	5.4%	*3*
Artisan Partners Holdings LP (formerly known as Artisan Partners Limited Partnership)	–	61,141,000	–	61,141,000 (L)	5.4%	*3*
Artisan Partners Limited Partnership	–	–	61,141,000	61,141,000 (L)	5.4%	*3*
Thriving Market Limited	100,000,000	–	–	100,000,000 (L)	8.9%	*4*
Lin Ying	–	100,000,000	–	100,000,000 (L)	8.9%	*4*
Ren Yunan	–	100,000,000	–	100,000,000 (L)	8.9%	*4*

Notes:

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

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

(3) To the best of the knowledge of the Directors and based on the information publicly available, 61,141,000 ordinary shares of the Company are held by Artisan Partners Limited Partnership as investment manager which is wholly-owned by Artisan Partners Holdings LP which in turn is wholly-owned by Artisan Partners Asset Management Inc.

(4) Ms. Lin Ying, the spouse of Ren Yunan, is the sole director of and interested in the entire issued share capital of Thriving Market Limited. Accordingly, Ren Yunan is deemed to be interested in the entire issued share capital of Thriving Market Limited by virtue of SFO. As at 31 December 2014, Thriving Market Limited was holding 100,000,000 unlisted warrants of the Company issued on 1 September 2014 pursuant to the subscription agreement dated 18 August 2014 between the Company and Thriving Market Limited. Upon the full exercise of the subscription rights attaching to such 100,000,000 warrants, Thriving Market Limited will hold approximately 8.14% of the enlarged issued share capital of the Company (assuming that there will not be any change in the issued share capital of the Company before the exercise of such subscription rights).

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 2014.

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.

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 2014.

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

During the year under review, the Company had repurchased from the market a total of 3,623,000 shares of the Company at price per share ranging from HK$1.55 to HK$1.89 for an aggregate consideration of HK$6,227,000. 3,623,000 repurchased shares were subsequently cancelled on 14 November 2014. The Directors believe that the repurchases of shares would lead to an enhancement of the net value of the Group and its assets and/or its earnings per share. Details of the repurchases of the listed securities were as follows:

Month of repurchase	Number of listed securities repurchased	Highest price per share	Lowest price per share	Aggregate purchase price
Repurchase of shares in July 2014	3,623,000	HK$1.89	HK$1.55	HK$6,227,000

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

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 2014, the Group had approximately 1,900 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.

USE OF PROCEED FROM WARRANTS ISSUANCE

Reference is made to the announcement of the Company dated 18 August 2014 in relation to the entering of subscription agreements, pursuant to which, the Company has conditionally agreed to issue 110,000,000 unlisted warrants at HK$0.01 each (the "**Warrants Issuance**"). As stated in the announcement of the Company dated 18 August 2014, a net proceeds of approximately HK$900,000 has been raised by the Company pursuant to the Warrants Issuance, and such net proceeds shall be utilised by the Group as general working capital of the Group and capital expenditures of the Group. The Company would like to update the shareholders and potential investors of the Company that, as at 31 December 2014, all of the net proceeds from the Warrants Issuance have been utilized in accordance with the proposed utilization.

SUFFICIENCY OF PUBLIC FLOAT

The Company had maintained a sufficient public float throughout the year ended 31 December 2014.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group's largest customer and five largest customers accounted for approximately 2.3% (2013: 2.7%) and 9.0% (2013: 10.7%) 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 8.2% (2013: 8.1%) and 32.5% (2013: 27.2%) 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 2014, the Company did not have other disclosure obligations under Rule 13.18 of the Listing Rules.

Directors' Report (Continued)

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.

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 2014 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, 17 March 2015

Independent Auditors' Report

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

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

TO THE SHAREHOLDERS OF
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 43 to 102, which comprise the consolidated and Company statements of financial position as at 31 December 2014, 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.

Independent Auditors' Report (Continued)

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 2014 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

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, 17 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Sales	6	**1,128,925**	1,833,795
Cost of sales	9	**(748,052)**	(1,082,033)
Gross profit		**380,873**	751,762
Other income	7	**19,521**	7,636
Other (losses)/gains, net	8	**(6,243)**	6,467
Selling and distribution expenses	9	**(273,765)**	(246,907)
Administrative expenses	9	**(89,708)**	(74,005)
Operating profit		**30,678**	444,953
Finance income		**10,175**	11,781
Finance costs		**(12,245)**	(7,693)
Finance (costs)/income, net	11	**(2,070)**	4,088
Profit before income tax		**28,608**	449,041
Income tax expense	12	**(17,494)**	(122,659)
Profit and total comprehensive income for the year		**11,114**	326,382
Earnings per share attributable to equity holders of the Company (RMB per share)	13		
– Basic		**0.01**	0.29
– Diluted		**0.01**	0.29

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

The notes on pages 50 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Land use rights	15	**144,290**	147,606
Property, plant and equipment	16	**1,268,097**	1,199,013
Deposits for property, plant and equipment	17	**98,130**	101,881
Deferred income tax assets	19	**25,534**	23,790
		1,536,051	1,472,290
Current assets			
Inventories	20	**93,432**	85,339
Trade receivables	21	**175,308**	295,431
Prepayments and other receivables	22	**54,245**	41,334
Pledged bank deposits	23	**4,374**	16,214
Cash and cash equivalents	24	**411,774**	792,196
		739,133	1,230,514
Total assets		**2,275,184**	2,702,804
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	28	**405,030**	406,133
Share premium	28	**563,056**	566,809
Other reserves	30	**85,352**	71,095
Retained earnings		**893,147**	886,875
Total equity		**1,946,585**	1,930,912

Consolidated Statement of Financial Position (Continued)

As at 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	*19*	**28,733**	28,450
Borrowings	*26*	**–**	386,526
		28,733	414,976
Current liabilities			
Trade and other payables	*25*	**180,320**	261,377
Borrowings	*26*	**115,277**	63,459
Current income tax liabilities		**4,269**	32,080
		299,866	356,916
Total liabilities		**328,599**	771,892
Total equity and liabilities		**2,275,184**	2,702,804
Net current assets		**439,267**	873,598
Total assets less current liabilities		**1,975,318**	2,345,888

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 17 March 2015 and are signed on its behalf by:

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

The notes on pages 50 to 102 are an integral part of these consolidated financial statements.

Statement of Financial Position

As at 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*18*	**134,206**	134,206
Loans to subsidiaries	*18*	**513,297**	909,382
		647,503	1,043,588
Current assets			
Amounts due from subsidiaries	*18*	**404,523**	358,775
Prepayments and other receivables	*22*	**118**	117
Pledged bank deposits	*23*	**4,374**	8,966
Cash and cash equivalents	*24*	**4,313**	9,046
		413,328	376,904
Total assets		**1,060,831**	1,420,492
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*28*	**405,030**	406,133
Share premium	*28*	**563,056**	566,809
Other reserves	*30*	**12,937**	3,522
Accumulated losses	*31*	**(49,358)**	(15,198)
Total equity		**931,665**	961,266

Statement of Financial Position (Continued)

As at 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
LIABILITIES			
Non-current liability			
Borrowings	26	–	386,526
Current liabilities			
Other payables	25	13,087	13,726
Borrowings	26	111,260	58,974
Amount due to a subsidiary	27	4,819	–
		129,166	72,700
Total liabilities		129,166	459,226
Total equity and liabilities		1,060,831	1,420,492
Net current assets		284,162	304,204
Total assets less current liabilities		931,665	1,347,792

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

The notes on pages 50 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Note	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note 30(a))	Statutory reserves RMB'000	Share option reserve RMB'000	Currency translation reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance as 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	30(b)	–	–	–	38,325	–	–	–	(38,325)	–
Dividends	14	–	–	–	–	–	–	–	(72,038)	(72,038)
Balance as at 31 December 2013		406,133	566,809	(87,600)	155,214	3,522	(41)	–	886,875	1,930,912
Balance as at 1 January 2014		**406,133**	**566,809**	**(87,600)**	**155,214**	**3,522**	**(41)**	**–**	**886,875**	**1,930,912**
Profit and total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,114**	**11,114**
Issue of warrants	30(c)	**–**	**–**	**–**	**–**	**–**	**–**	**858**	**–**	**858**
Employee share-based payments		**–**	**–**	**–**	**–**	**8,557**	**–**	**–**	**–**	**8,557**
Repurchase and cancellation of ordinary shares		**(1,103)**	**(3,753)**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,856)**
Transfer to statutory reserves	30(b)	**–**	**–**	**–**	**4,842**	**–**	**–**	**–**	**(4,842)**	**–**
Balance as at 31 December 2014		**405,030**	**563,056**	**(87,600)**	**160,056**	**12,079**	**(41)**	**858**	**893,147**	**1,946,585**

The notes on pages 50 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Cash generated from operations	*32*	**164,990**	465,382
Income tax paid		**(46,766)**	(124,370)
Net cash generated from operating activities		**118,224**	341,012
Cash flows from investing activities			
Purchase of property, plant and equipment		**(164,691)**	(189,129)
Deposits paid for property, plant and equipment		**(1,790)**	(69,061)
Proceeds from disposal of property, plant and equipment		**8,953**	3,026
Interest received		**10,175**	11,781
Net cash used in investing activities		**(147,353)**	(243,383)
Cash flows from financing activities			
Proceeds from borrowings		**–**	445,500
Repayments of borrowings		**(334,708)**	(70,595)
Decrease/(increase) in pledged bank deposits		**11,840**	(6,610)
Proceeds from issuance of new shares upon exercise of share options		**–**	14,820
Proceeds from issue of warrants		**858**	–
Payment for repurchase of ordinary shares		**(4,856)**	–
Dividends paid		**–**	(72,038)
Interest paid		**(24,427)**	(22,616)
Net cash (used in)/generated from financing activities		**(351,293)**	288,461
Net (decrease)/increase in cash and cash equivalents		**(380,422)**	386,090
Cash and cash equivalents at the beginning of the year		**792,196**	406,106
Cash and cash equivalents at the end of the year		**411,774**	792,196

The notes on pages 50 to 102 are an integral part of these consolidated financial statements.

Notes to the 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 manufacture and sale of jelly products, confectionary products, beverages products and other snacks 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 thousands of units of Renminbi ("RMB'000"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 17 March 2015.

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 applicable requirements of the Hong Kong Companies Ordinance with concern the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor of Hong Kong Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in section 76 to 87 of Schedule 11 to that 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.

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Company has applied, for the first time, the following new standards, amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board (the "IASB"), which are effective for the Company's financial year beginning 1 January 2014. A summary of the new IFRSs are set out as below:

IFRS 10, IFRS 12 and IAS 27 (Amendments)	Investment Entities
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
IAS 36 (Amendments)	Recoverable Amount and Disclosures for Non-Financial Assets
IAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC – Int 21	Levies

The nature of the impending changes in accounting policy on adoption is described below.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The Group has applied the amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

2 Basis of preparation (Continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognised in the Group's consolidated financial statements.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Group has applied the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Group has applied the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

2 Basis of preparation (Continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRIC – Int 21 Levies

The Group has applied IFRIC – Int 21 Levies for the first time in the current year. IFRIC – Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

IFRIC – Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

IFRS 9	Financial Instruments[6]
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
IFRS 10, IFRS 12 and IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception[3]
IFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operation[3]
IFRS 14	Regulatory Deferral Accounts[4]
IFRS 15	Revenue from Contracts with Customers[5]
IAS 1 (Amendments)	Disclosure Initiative[3]
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
IAS 16 and IAS 41 (Amendments)	Agriculture: Bearer Plants[3]
IAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions[1]
IAS 27 (Amendments)	Equity Method in Separate Financial Statements[3]
IFRSs (Amendments)	Annual Improvements to IFRSs 2010-2012 Cycle[2]
IFRSs (Amendments)	Annual Improvements to IFRSs 2011-2013 Cycle[1]
IFRSs (Amendments)	Annual Improvements to IFRSs 2012-2014 Cycle[3]

1 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted
2 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted
3 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted
4 Effective for an entity that first adopts IFRS for its annual financial statements beginning on or after 1 January 2016
5 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted
6 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

2 Basis of preparation (Continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described below:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

The Directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2018 and that the application of new standard may have a significant impact on amounts reported in respect of Group's financial assets. However, it is not practical to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to IFRS 10:

– An exception from the general requirement of full gain or loss recognition has been introduced into IFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

– New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

2 Basis of preparation (Continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Continued)

Amendments to IAS 28:

– The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

– A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

– A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

The Directors do not anticipate that the application of these amendments to IFRS 10 and IAS 28 will have a material impact on the Group's consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception

The narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.

The Directors do not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operation

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments to IFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors do not anticipate that the application of these amendments to IFRS 11 will have a material impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

2 Basis of preparation (Continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 14 Regulatory Deferral Accounts

IFRS 14 Regulatory Deferral Accounts, describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with IFRS/IFRS 14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate regulated goods or services.

The amendments to IFRS 14 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors do not anticipate that the application of these amendments to IFRS 14 will have a material impact on the Group's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

– Step 1: Identify the contract(s) with a customer

– Step 2: Identify the performance obligations in the contract

– Step 3: Determine the transaction price

– Step 4: Allocate the transaction price to the performance obligations in the contract

– Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Directors anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The amendments can be applied immediately and become mandatory for annual periods beginning on or after 1 January 2016.

2 Basis of preparation (Continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The Directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Directors do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The Directors do not anticipate that the application of these amendments to IAS 16 and IAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The Directors do not anticipate that the application of these amendments to IAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

Notes to the Consolidated Financial Statements (Continued)

2 Basis of preparation (Continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

– At cost

– In accordance with IFRS 9 Financial Instruments (or IAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted IFRS 9), or

– Using the equity method as described in IAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to IAS 27, there are consequential amendments to IAS 28 to avoid a potential conflict with IFRS 10 Consolidated Financial Statements and to IFRS 1 First time Adoption of International Financial Reporting Standards.

The Directors do not anticipate that the application of these amendments to IAS 27 will have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to IFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

2 Basis of preparation (Continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Annual Improvements to IFRSs 2010-2012 Cycle (Continued)

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of IAS 40; and

(b) the transaction meets the definition of a business combination under IFRS 3.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

2 Basis of preparation (Continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to IFRS 7 Disclosure – Offsetting Financial Assets and Financial Liabilities issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34 Interim Financial Reporting.

The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to IAS 34 clarify the requirements relating to information required by IAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The Directors do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

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

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

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.

Notes to the Consolidated Financial Statements (Continued)

3 Summary of significant accounting policies (Continued)

3.3 Foreign currency translation (Continued)

(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 (losses)/gains, net".

(c) Group companies

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

(i) assets and liabilities for each 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 Summary of significant accounting policies (Continued)

3.4 Property, plant and equipment

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

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

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 (losses)/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.

Notes to the Consolidated Financial Statements (Continued)

3 Summary of significant accounting policies (Continued)

3.6 Impairment of investments in subsidiaries and non-financial assets

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

3.7 Inventories

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

3.8 Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated statement of comprehensive income.

3.8.1 Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets ("AFS"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

(i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss, of which interest income is included in net gains or losses.

3 Summary of significant accounting policies (Continued)

3.8 Financial instruments (Continued)

3.8.1 Financial assets (Continued)

(ii) Financial assets at FVTPL

Financial assets at FVTPL comprise financial assets held for trading purpose and derivative financial instruments that are not designated as effective hedging instruments. At the end of each reporting period date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated statement of comprehensive income in the period in which they arise.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below). An impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iv) AFS financial assets

AFS financial assets are non-derivatives that are either designated or not classified as any of the other categories. At the end of each reporting period subsequent to initial recognition, AFS financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in consolidated statement of profit or loss and other comprehensive income. Any impairment losses on AFS financial assets are recognised in consolidated statement of profit or loss and other comprehensive income. Impairment losses on AFS equity investments will not reverse in subsequent periods. For AFS debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition. An impairment loss is recognised in consolidated statement of profit or loss and other comprehensive income when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

During the ended of reporting period, the Group did not hold any significant financial assets at fair value through profit or loss and available-for-sale financial assets.

Notes to the Consolidated Financial Statements (Continued)

3 Summary of significant accounting policies (Continued)

3.8 Financial instruments (Continued)

3.8.1 Financial assets (Continued)

(v) Impairment of financial assets

Financial assets, other than those at financial assets at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

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

(1) significant financial difficulty of the issuer or counterparty;

(2) breach of contract, such as a default or delinquency in interest or principal payments; or

(3) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period over 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

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

Impairment losses on AFS equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

3 Summary of significant accounting policies (Continued)

3.8 Financial instruments (Continued)

3.8.2 Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

(i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at fair value through profit or loss, of which the interest expense is included in other (losses)/gains, net.

(ii) Other financial liabilities

Other financial liabilities including trade and other payables and borrowings are subsequently measured at amortised cost, using the effective interest rate method.

(iii) Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(iv) Warrants

Warrants issued by the Company that will be settled by other than a fixed amount of cash for a fixed number of the Company's own equity instruments are derivative financial instruments. Warrants classified as derivative financial instruments are recognised at their fair values at the date of issue. Changes in fair values in subsequent periods are recognised through profit or loss.

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are equity instruments. The net proceeds received from the issue of warrants is recognised in equity (warrant reserve). The warrant reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in the warrant reserve will be transferred to accumulated losses.

3 Summary of significant accounting policies (Continued)

3.8 Financial instruments (Continued)

3.8.2 Financial liabilities and equity instruments (Continued)

(v) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred or the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated statement of profit or loss and other comprehensive income.

For financial liabilities, they are removed from the Group's consolidated statement of financial positions when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the consolidated statement of profit or loss and other comprehensive income.

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, net of tax, from the proceeds.

3.12 Trade and other payables

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

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

3 Summary of significant accounting policies (Continued)

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 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 reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

3 Summary of significant accounting policies (Continued)

3.14 Current and deferred income tax (Continued)

Deferred income tax liabilities are 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 entity that is preparing the consolidated financial statements of the Group;

(2) 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.

(3) 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 (2).

(vii) A person identified in (2) (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") and USD.

Currency risk arises when transactions are denominated in foreign currencies.

The Group's currency exposure as at 31 December 2014 and 2013 is as follows:

	RMB	**HKD**	**USD**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2014				
Financial assets				
Cash and cash equivalents	**406,719**	**5,044**	**11**	**411,774**
Pledged bank deposits	**–**	**–**	**4,374**	**4,374**
Trade and other receivables	**226,085**	**149**	**–**	**226,234**
Financial liabilities				
Trade and other payables	**(166,256)**	**(14,064)**	**–**	**(180,320)**
Borrowings	**–**	**(4,017)**	**(111,260)**	**(115,277)**
Net financial assets	**466,548**	**(12,888)**	**(106,875)**	**346,785**
Currency exposure		**(12,888)**	**(106,875)**	**(119,763)**
As 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	902,294	(14,461)	(436,492)	451,341
Currency exposure		(14,461)	(436,492)	(450,953)

Notes to the Consolidated Financial Statements (Continued)

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 2014 and 2013 is as follows:

	RMB	HKD	USD	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2014				
Financial assets				
Cash and cash equivalents	**1**	**4,312**	**–**	**4,313**
Pledged bank deposits	**–**	**–**	**4,374**	**4,374**
Amounts due from subsidiaries	**404,523**	**–**	**–**	**404,523**
Financial liabilities				
Other payables	**–**	**(13,087)**	**–**	**(13,087)**
Borrowings	**–**	**–**	**(111,260)**	**(111,260)**
Amount due to a subsidiary	**(4,819)**	**–**	**–**	**(4,819)**
Net financial assets	**399,705**	**(8,775)**	**(106,886)**	**284,044**
Currency exposure		**(8,775)**	**(106,886)**	**(115,661)**
As 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 liabilities	357,708	(3,645)	(436,502)	(82,439)
Currency exposure		(3,645)	(436,502)	(440,147)

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(a) *Market risk* (Continued)

(i) *Currency risk* (Continued)

If RMB changes against the HKD and USD 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:

	2014	2013
	Increase/(decrease)	
	Profit after tax	Profit after tax
	RMB'000	RMB'000
The Group		
HKD against RMB		
– strengthened	**(644)**	(723)
– weakened	**644**	723
USD against RMB		
– strengthened	**(5,344)**	(21,825)
– weakened	**5,344**	21,825
The Company		
HKD against RMB		
– strengthened	**(439)**	(182)
– weakened	**439**	182
USD against RMB		
– strengthened	**(5,344)**	(21,825)
– weakened	**5,344**	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 2014, 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 2014 would have been RMB1,153,000 lower/higher (2013: RMB4,500,000 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 subsidiaries 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 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 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 2014				
Trade payables	**106,897**	**–**	**–**	**106,897**
Accruals and other payables	**73,423**	**–**	**–**	**73,423**
Borrowings	**115,277**	**–**	**–**	**115,277**
	295,597	**–**	**–**	**295,597**
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
The Company				
As at 31 December 2014				
Accruals and other payables	**13,087**	**–**	**–**	**13,087**
Borrowings	**111,260**	**–**	**–**	**111,260**
Amount due to a subsidiary	**4,819**	**–**	**–**	**4,819**
	129,166	**–**	**–**	**129,166**
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

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 and the Company's financial assets, including cash and cash equivalents, pledged bank deposits, trade and other receivables, loans to subsidiaries and amounts due from subsidiaries and the Group's and the Company's financial liabilities, including trade and other payables, borrowings and amount due to a subsidiary, 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 and the Company 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.

Notes to the Consolidated Financial Statements (Continued)

6 Segment information (Continued)

During the year ended 31 December 2014, none of the individual customer account for 10% or more of the Group's external revenue (2013: none). As at 31 December 2014 and 2013, substantially all of the Group's assets, liabilities and capital expenditure are located or utilised in the PRC.

	Year ended 31 December 2014				
	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	772,732	173,597	49,694	132,902	1,128,925
Cost of sales	(493,609)	(108,592)	(44,725)	(101,126)	(748,052)
Gross profit	279,123	65,005	4,969	31,776	380,873
Results of reportable segments	91,868	22,845	(7,077)	(529)	107,107

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

Results of reportable segments					107,107
Corporate income					23,928
Corporate expenses					(100,357)
Operating profit					30,678
Finance income					10,175
Finance costs					(12,245)
Profit before income tax					28,608
Income tax expense					(17,494)
Profit for the year					11,114
Amortisation of land use rights	2,381	–	935	–	3,316
Depreciation of property, plant and equipment	69,196	–	29,846	4,417	103,459

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
Amortisation of land use rights	2,381	–	935	–	3,316
Depreciation of property, plant and equipment	67,932	–	1,323	6,389	75,644

Geographical information

During the years ended 31 December 2014 and 2013, the Group mainly operated in 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 2014 and 31 December 2013. No analysis of the Group's result and assets by geographical area is disclosed.

Notes to the Consolidated Financial Statements (Continued)

7 Other income

	2014 RMB'000	2013 RMB'000
Rental income	**1,272**	646
Government subsidy	**18,249**	6,990
	19,521	7,636

8 Other (losses)/gains, net

	2014 RMB'000	2013 RMB'000
Gain on sales of raw materials and scrap materials	**1,715**	3,352
Loss on disposal of property, plant and equipment	**(918)**	(3,603)
Net exchange (losses)/gains	**(7,040)**	6,718
	(6,243)	6,467

9 Expenses by nature

	2014 RMB'000	2013 RMB'000
Purchases of raw materials, finished goods and consumables	**599,846**	951,852
Changes in inventories of raw materials and finished goods	**(8,093)**	(12,570)
Advertising and promotion expenses	**217,344**	191,924
Employee benefit expenses (including directors' emoluments) (Note 10)	**109,073**	108,425
Depreciation of property, plant and equipment (Note 16)	**103,459**	75,644
Amortisation of land use rights (Note 15)	**3,316**	3,316
Freight and transportation expenses	**4,291**	3,691
Auditors' remuneration	**3,004**	3,736
Other expenses	**79,285**	76,927
Total cost of sales, selling and distribution and administrative expenses	**1,111,525**	1,402,945

10 Employee benefit expenses (including directors' emoluments)

	2014 RMB'000	2013 RMB'000
Salaries and bonuses	**89,628**	96,571
Employer's contribution to defined contribution plans	**10,888**	9,044
Employee share-based payment	**8,557**	2,810
	109,073	108,425

(a) Directors' and chief executives' emoluments

The emolument of every director and chief executive for the year ended 31 December 2014 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	–	800	–	–	800
Mr. Zheng Yu Shuang	–	800	–	–	800
Mr. Zheng Yu Huan	–	800	–	–	800
Non-executive directors					
Mr. Li Hung Kong	187	–	–	–	187
Mr. Ren Yunan (Appointed on 3 February 2015)	–	–	–	–	–
Independent non-executive directors					
Mr. Li Zhi Hai	187	–	–	–	187
Ms. Sun Kam Ching	187	–	–	–	187
Mr. Chung Yau Tong	187	–	–	–	187
	748	2,400	–	–	3,148

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

Notes to the Consolidated Financial Statements (Continued)

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 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	–	800	–	–	800
Mr. Zheng Yu Shuang	–	800	–	–	800
Mr. Zheng Yu Huan	–	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

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 3 (2013: 3) directors, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 (2013: 2) individuals during the year are as follows:

	2014 RMB'000	2013 RMB'000
Salaries, share options and bonuses	**2,265**	2,289
Employer's contribution to defined contribution plans	**25**	17
	2,290	2,306

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

(b) Five highest paid individuals (Continued)

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

	Number of individuals	
	2014	2013
Nil – HK$1,000,000 (equivalent to Nil – RMB800,000)	**1**	1
HK$1,000,001 – HK$2,000,000 (equivalent to RMB800,001 – RMB1,600,000)	**1**	–
HK$2,000,001 – HK$2,500,000 (equivalent to RMB1,600,001 – RMB2,000,000)	**–**	1

During the years ended 31 December 2014 and 2013, 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 (costs)/income, net

	2014	2013
	RMB'000	RMB'000
Interest expense on bank borrowings:		
– wholly repayable within five years	**(24,427)**	(22,616)
Less: amounts capitalised on qualifying assets	**12,182**	14,923
Finance costs	**(12,245)**	(7,693)
Less: interest income on bank deposits	**10,175**	11,781
Finance (costs)/income, net	**(2,070)**	4,088

Notes to the Consolidated Financial Statements (Continued)

12 Income tax expense

	2014 RMB'000	2013 RMB'000
Current income tax – PRC	**17,938**	129,297
Deferred income tax (Note 19)	**(444)**	(6,638)
	17,494	122,659

During the year ended 31 December 2014, the Group did not have any assessable income in Bermuda, BVI and Hong Kong (2013: Nil).

The subsidiaries in the PRC are subject to income tax rate of 25% (2013: 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:

	2014 RMB'000	2013 RMB'000
Profit before income tax	**28,608**	449,041
Tax calculated at PRC applicable income tax rate of 25% (2013: 25%)	**7,152**	112,260
Effects of:		
– Different tax rates	**3,463**	1,234
– Income not subject to tax	**(2,382)**	(6,171)
– Expenses not deductible for tax purposes	**6,697**	4,944
– Withholding tax on unremitted profits	**1,301**	10,022
– Withholding tax on interest income	**810**	1,018
– Over-provision in previous year	**(90)**	–
– Others	**543**	(648)
Tax charge	**17,494**	122,659

13 Earnings per share

(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.

	2014	2013
Net profit attributable to the equity holders of Company (RMB'000)	**11,114**	326,382
Weighted average number of ordinary shares in issue for basic earnings per share ('000)	**1,132,133**	1,128,649
Basic earnings per share (RMB per share)	**0.01**	0.29

(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 and the outstanding warrants. The potential ordinary shares in respect of the Company's outstanding share options and the outstanding warrants are anti-dilutive for the year ended 31 December 2014 while the share options were dilutive for the year ended 31 December 2013.

	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

The directors do not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

Notes to the Consolidated Financial Statements (Continued)

15 Land use rights

	The Group	
	2014	2013
	RMB'000	RMB'000
Cost		
As at 1 January	**165,820**	165,820
Additions	**–**	–
As at 31 December	**165,820**	165,820
Accumulated amortisation		
As at 1 January	**18,214**	14,898
Amortisation	**3,316**	3,316
As at 31 December	**21,530**	18,214
Net book amount		
As at 31 December	**144,290**	147,606

The land use rights of the Group are located in the PRC which the leasehold periods were 50 years.

Notes to the Consolidated Financial Statements (Continued)

16. Property, plant and equipment

The Group

	Land and building RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction--in-progress RMB'000	Total RMB'000
Cost:						
As 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)	–
As at 31 December 2013 and 1 January 2014	836,267	635,629	14,331	820	–	1,487,047
Additions	–	178,357	1,818	–	2,239	182,414
Disposals	–	(11,781)	(115)	–	–	(11,896)
As at 31 December 2014	**836,267**	**802,205**	**16,034**	**820**	**2,239**	**1,657,565**
Accumulated depreciation:						
As at 1 January 2013	82,155	131,972	9,437	–	–	223,564
Charge for the year	31,968	42,661	851	164	–	75,644
Disposals	–	(11,174)	–	–	–	(11,174)
As at 31 December 2013 and 1 January 2014	114,123	163,459	10,288	164	–	288,034
Charge for the year	41,787	60,395	1,113	164	–	103,459
Disposals	–	(1,911)	(114)	–	–	(2,025)
As at 31 December 2014	**155,910**	**221,943**	**11,287**	**328**	**–**	**389,468**
Net book value:						
As at 31 December 2014	**680,357**	**580,262**	**4,747**	**492**	**2,239**	**1,268,097**
As at 31 December 2013	722,144	472,110	4,043	656	–	1,199,013

During the year, the Group has capitalised borrowing costs amounted to RMB12,182,000 (2013: RMB14,923,000) on qualifying assets. The land and buildings with carrying values of RMB9,003,000 (2013: RMB9,515,000) were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2014.

Notes to the Consolidated Financial Statements (Continued)

17 Deposits for property, plant and equipment

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

18 Interests in subsidiaries

(a) Investments in subsidiaries

	The Company 2014 RMB'000	2013 RMB'000
Unlisted equity investments, at cost	**134,206**	134,206

The following is a list of the principal subsidiaries as at 31 December 2014:

Name	Country of business/ incorporation	Principal activities	Equity holding
Directly held			
Timeluck International Limited	BVI	Investment holding	100%
La Bi Xiao Xin 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	
	2014	2013
	RMB'000	RMB'000
Current		
Amounts due from subsidiaries	**404,523**	358,775
Non-current		
Loans to subsidiaries	**518,133**	914,218
Provision for impairment	**(4,836)**	(4,836)
	513,297	909,382

The amounts due from subsidiaries approximate their fair values.

The amounts due from subsidiaries are unsecured, non-interest bearing and recoverable on demand.

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.

Notes to the Consolidated Financial Statements (Continued)

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	
	2014	2013
	RMB'000	RMB'000
Deferred income tax assets		
Beginning of the year	**23,790**	6,112
Credited to the consolidated statement of profit or loss and other comprehensive income (Note 12)	**1,744**	17,678
End of the year	**25,534**	23,790
Deferred income tax liabilities		
Beginning of the year	**28,450**	17,410
Charged to the consolidated statement of profit or loss and other comprehensive income (Note 12)	**1,300**	11,040
Withholding tax paid during the year	**(1,017)**	–
End of the year	**28,733**	28,450

As at 31 December 2014, 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% (2013: 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 2014, there are temporary differences relating to the retained earnings of the Group's PRC subsidiaries amounted to RMB1,023,215,000 (2013: RMB980,478,000). Deferred income tax liabilities of RMB63,034,000 (2013: RMB59,465,000), have not been recognised in respect of the tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these PRC subsidiaries and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

20 Inventories

	The Group	
	2014	2013
	RMB'000	RMB'000
Raw materials	**63,475**	47,540
Finished goods	**29,957**	37,799
	93,432	85,339

The cost of inventories recognised as expense and included in cost of sales amounted to RMB591,753,000 (2013: RMB939,282,000).

21 Trade receivables

The Group's sales are generally on credit term ranging from 30 to 90 days. As at 31 December 2014, the ageing analysis of trade receivables, based on invoice date, is as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Less than 30 days	**116,530**	206,575
31 days – 90 days	**56,844**	88,821
Over 90 days	**1,934**	35
	175,308	295,431

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 2014, trade receivables of RMB1,934,000 (2013: RMB35,000) 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	
	2014	2013
	RMB'000	RMB'000
Past due by less than 3 months but not impaired	**1,934**	35

During the year ended 31 December 2014, no trade receivables were impaired (2013: Nil). As at 31 December 2014 and 2013, no trade receivables are considered to be impaired.

The carrying amounts of trade receivables approximate their fair values.

Notes to the Consolidated Financial Statements (Continued)

22 Prepayments and other receivables

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayment for advertising expenses	**–**	12,816	**–**	–
Other prepayments	**3,319**	2,967	**118**	117
Other receivables	**50,926**	25,551	**–**	–
	54,245	41,334	**118**	117

As at 31 December 2014, other receivables mainly comprised of value-added tax receivables of RMB50,926,000 (2013: RMB25,551,000).

23 Pledged bank deposits

As at 31 December 2014, pledged bank deposits of the Group were with initial terms of over three months and pledged to banks as security for borrowings (Note 26). As at 31 December 2013, 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 2014 was 0.02% (2013: 3.15%) per annum.

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

24 Cash and cash equivalents

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**411,774**	75,395	**4,313**	9,046
Short-term bank deposits	**–**	716,801	**–**	–
	411,774	792,196	**4,313**	9,046

The weighted average effective interest rate of the Group's short-term bank deposits as at 31 December 2014 was Nil. (2013: 2.84%) per annum.

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

Cash and cash equivalents of the Group of RMB406,719,000 (2013: RMB789,897,000) 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	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**106,897**	133,477	**–**	–
Bills payable	**–**	27,372	**–**	–
Trade and bills payables	**106,897**	160,849	**–**	–
Accrued sales rebates	**5,174**	33,311	**–**	–
Other accrued expenses	**11,094**	15,368	**2,185**	4,591
Directors' fees and emoluments payable	**10,902**	9,135	**10,902**	9,135
Other payables and sundry creditors	**46,253**	42,714	**–**	–
	180,320	261,377	**13,087**	13,726

The credit periods granted by suppliers generally range from 30 to 60 days. As at 31 December 2014, the ageing analysis of trade payables is as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Less than 30 days	**94,831**	114,537
31 days – 90 days	**11,897**	18,012
Over 90 days	**169**	928
	106,897	133,477

As at 31 December 2013, bills payable of the Group amounting to RMB27,372,000 were secured by pledged bank deposits of RMB7,248,000 (Note 23).

As at 31 December 2013, the bills payable were with average maturity period of within six months.

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

Notes to the Consolidated Financial Statements (Continued)

26 Borrowings

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current	**–**	386,526	**–**	386,526
Current	**115,277**	63,459	**111,260**	58,974
	115,277	449,985	**111,260**	445,500

As at 31 December 2014, the maturity of bank borrowings is as follows:

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**115,277**	63,459	**111,260**	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	**115,277**	449,985	**111,260**	445,500
Over 5 years	**–**	–	**–**	–
Total bank borrowings	**115,277**	449,985	**111,260**	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 utilised during the year ended 31 December 2013. As at 31 December 2014, the Facility was pledged by shares of certain wholly-owned subsidiaries of the Company and bank deposit of RMB4,374,000 (2013: RMB8,966,000). The Facility has an original term of 36 months commencing from the date of the Facility Agreement. However, in 2014, the Company has triggered certain potential event of defaults 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 2014, the remaining balance of the Facility was approximately RMB111,260,000 (equivalent to USD18,750,000). And the Facility was fully settled subsequent to the year end.

As at 31 December 2014, the bank borrowing of RMB4,017,000 was secured by the land and buildings of RMB9,003,000 and charged at HIBOR + 2.25% (2013: the bank borrowing of RMB4,485,000 was secured by the land and buildings of RMB9,515,000). Such borrowing was re-pricing every month.

Notes to the Consolidated Financial Statements (Continued)

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	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
HK dollar	**4,017**	4,485	**–**	–
USD	**111,260**	445,500	**111,260**	445,500
	115,277	449,985	**111,260**	445,500

The weighted average effective interest rate of the bank borrowings as at 31 December 2014 was 3.77% (2013: 3.80%) per annum.

27 Amount due to a subsidiary

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

28 Share capital and share premium

Authorised share capital

As at 31 December 2014, the total authorised share capital of the Company was US$250,000,000 (2013: US$250,000,000).

Issued share capital

	Number of shares	Amount		
	Issued share capital	**Share capital RMB'000**	**Share premium RMB'000**	**Total share capital and share premium RMB'000**
The Company				
As at 1 January 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 and 1 January 2014	1,132,600,000	406,133	566,809	972,942
Repurchase and cancellation of ordinary shares during the year	(3,623,000)	(1,103)	(3,753)	(4,856)
As at 31 December 2014	**1,128,977,000**	**405,030**	**563,056**	**968,086**

Notes to the Consolidated Financial Statements (Continued)

28 Share capital and share premium (Continued)

Issued share capital (Continued)

Note:

(a) Pursuant to a directors' resolution passed on 7 July 2014, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate cost paid
July 2014	3,623,000	HK$1.89	HK$1.55	HK$6,227,000 (equivalent to RMB4,856,000)

All the repurchased ordinary shares were cancelled at 14 November 2014.

29 Share based payments – Group and 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%

On 30 September 2014, 33,000,000 share options were granted to certain employees of the Group with an exercisable period from 1 October 2014 to 30 September 2019 at an exercise price of HK$1.19 per Share. All of these share options were immediately vested. The estimated fair value of these share options was approximately RMB6,788,000, 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 September 2014
Exercise price:	HK$1.19 per Share
Expected life:	2.5 years
Risk-free rate:	1%
Expected volatility:	47%
Expected dividend yield:	2%

29 Share based payments – Group and Company (Continued)

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 2014.

Movement of the share options granted during the year ended 31 December 2014 and 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 2014**	**Granted during the year ended 31 December 2014**	**Exercised during the year ended 31 December 2014**	**Lapsed during the year ended 31 December 2014**	**Outstanding as at 31 December 2014**
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**
1 October 2014 to 30 September 2019	**–**	**33,000,000**	**–**	**–**	**33,000,000**
Total	**8,000,000**	**33,000,000**	**–**	**–**	**41,000,000**

	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.

30 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.

(c) Other reserve and share option reserve

The Company

	Other reserve RMB'000	Share option reserve RMB'000	Total RMB'000
Balance as at 1 January 2013	–	4,063	4,063
Employee share-based payments	–	2,810	2,810
Exercise of share options	–	(3,351)	(3,351)
Balance as at 31 December 2013 and 1 January 2014	–	3,522	3,522
Issue of warrants (note)	858	–	858
Employee share-based payments	–	8,557	8,557
Balance as at 31 December 2014	858	12,079	12,937

Note:

On 18 August 2014, the Company entered into subscription agreements with two parties (the "Subscribers"), pursuant to which, the Company agreed to issue in aggregate 110,000,000 unlisted warrants to the Subscribers at an issue price of HK$0.01 per warrant, totalling HK$1,100,000 (equivalent to RMB858,000). Each unlisted warrant entitle the holder to subscribe for one share of the Company at the subscription price of HK$1.93 per share. Mr. Ren Yunan, the spouse of the beneficial owner of a subscriber who holds 100,000,000 unlisted warrants, was appointed as a non-executive director of the Company on 3 February 2015.

31 Accumulated losses

Movements in accumulated losses of the Company are as follows:

	2014 RMB'000	2013 RMB'000
Balance as at 1 January	**(15,198)**	86,758
Net loss	**(34,160)**	(29,918)
Dividends (Note 14)	**–**	(72,038)
Balance as at 31 December	**(49,358)**	(15,198)

The loss attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB34,160,000 (2013: RMB29,918,000).

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

32 Cash generated from operations

	2014 RMB'000	2013 RMB'000
Profit for the year	**11,114**	326,382
Adjustments for:		
– Income tax expense recognised in profit or loss	**17,494**	122,659
– Amortisation and depreciation	**106,775**	78,960
– Loss on disposal of property, plant and equipment	**918**	3,603
– Interest income	**(10,175)**	(11,781)
– Finance costs recognised in profit or loss	**12,245**	7,693
– Employee share-based payments	**8,557**	2,810
Operating cash flow before working capital changes	**146,928**	530,326
Change in working capital		
– Trade receivables, prepayments and other receivables	**107,212**	(56,344)
– Inventories	**(8,093)**	(12,570)
– Trade and other payables	**(81,057)**	3,970
Cash generated from operations	**164,990**	465,382

Notes to the Consolidated Financial Statements (Continued)

33 Commitments

(a) Capital commitments

As at 31 December 2014, the Group had the following capital commitments in respect of land use right and property, plant and equipment:

	The Group	
	2014	2013
	RMB'000	RMB'000
Authorised but not contracted for		
– Land use right	**50,000**	50,000
Contracted but not provided for		
– Property, plant and equipment	**10,140**	7,676
	60,140	57,676

34 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	
	2014	2013
	RMB'000	RMB'000
Directors' fee	**748**	636
Salaries and other employee benefits	**5,639**	5,200
	6,387	5,836

35 Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2014 and 2013.

36 Events after the reporting period

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 date of the consolidated financial statements, all the term loan had been settled.