Annual Report
2017

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

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

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

NOMINATION COMMITTEE

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

AUDITORS

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

Conyers Corporate Services (Bermuda) 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

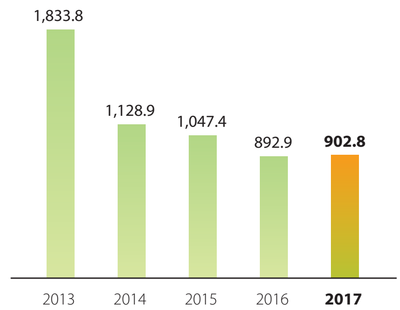
Construction Bank of China, Jinjiang Branch
Construction Bank Building
Zeng Jin Area, Qing Yang
Jinjiang, Fujian
PRC

Ping An Bank Co., Ltd., Quanzhou Branch
1/F, Jun Yi Building, 311 Fengze Street
Quanzhou, Fujian
PRC

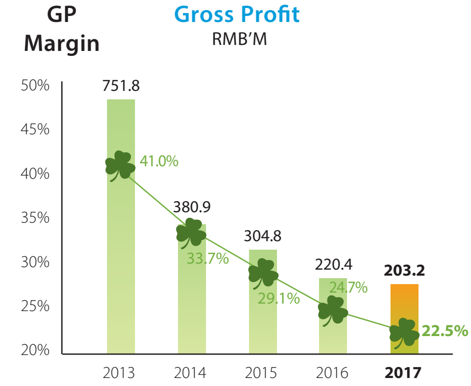
China CITIC Bank, Quanzhou Branch
1-2/F, Renmin Yinhang Building
Quanzhou, Fujian
PRC

Financial Highlights

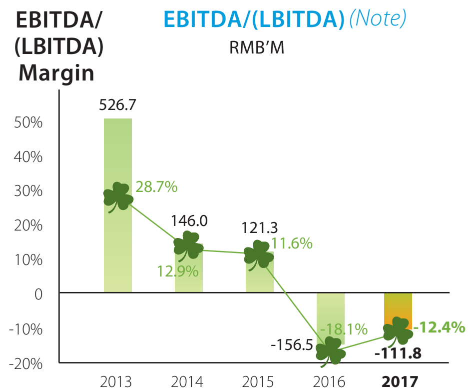
Revenue
RMB'M



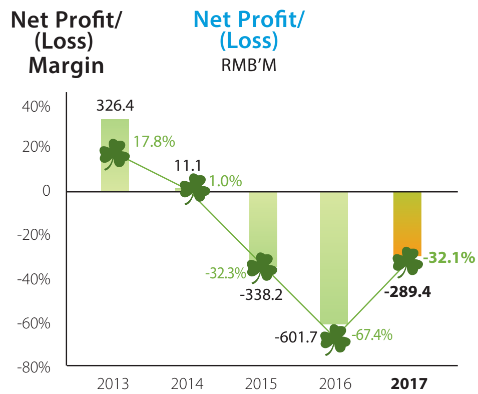
Gross Profit
RMB'M



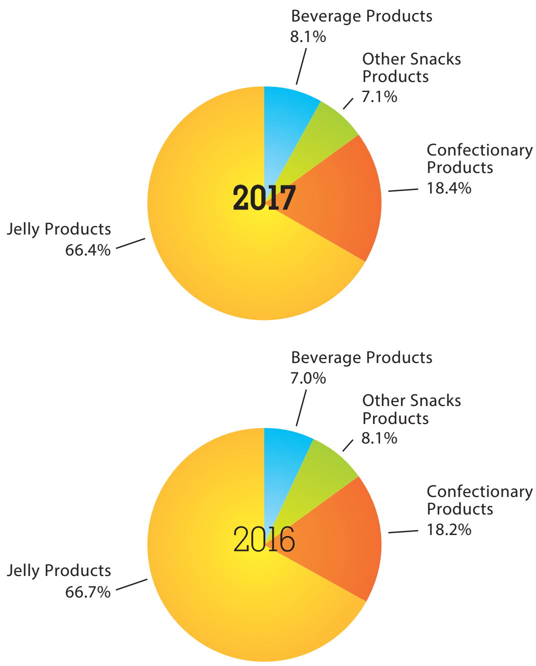
EBITDA/(LBITDA) *(Note)*
RMB'M



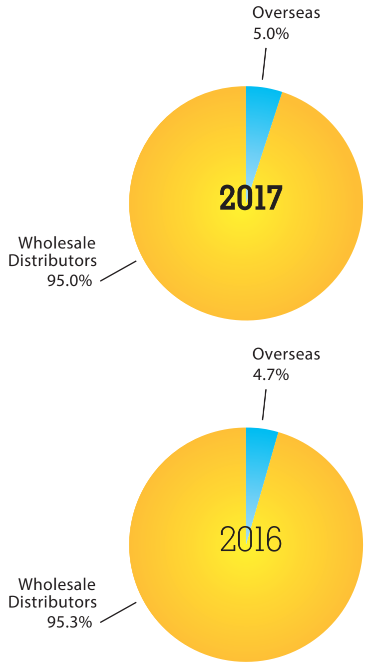
Net Profit/(Loss)
RMB'M



Revenue by Products



Revenue by Distribution Channels



Note: EBITDA/(LBITDA) refers to profit/(loss) before interests, taxation, depreciation, amortisation, non-cash share-based payments, impairment loss on property, plant and equipment, impairment loss on loan receivable and impairment loss on trade receivable.

Financial Summary

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**902,795**	892,854	1,047,368	1,128,925	1,833,795
Gross profit	**203,245**	220,445	304,759	380,873	751,762
(Loss)/profit before taxation	**(327,892)**	(635,630)	(328,662)	28,608	449,041
Taxation	**38,487**	33,964	(9,559)	(17,494)	(122,659)
(Loss)/profit and total comprehensive (loss)/income for the year	**(289,405)**	(601,666)	(338,221)	11,114	326,382

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**1,250,131**	1,362,192	1,510,210	1,536,051	1,472,290
Current assets	**746,343**	871,066	731,162	739,133	1,230,514
Total assets	**1,996,474**	2,233,258	2,241,372	2,275,184	2,702,804
Equity					
Total equity	**850,266**	1,139,671	1,616,278	1,946,585	1,930,912
Liabilities					
Non-current liabilities	**231,540**	231,540	31,429	28,733	414,976
Current liabilities	**914,668**	862,047	593,665	299,866	356,916
Total liabilities	**1,146,208**	1,093,587	625,094	328,599	771,892
Total equity and liabilities	**1,996,474**	2,233,258	2,241,372	2,275,184	2,702,804

Chairman's Statement

Dear shareholders,

I am pleased to present the annual report of Labixiaoxin Snacks Group Limited (the "Company") for the year ended 31 December 2017 and extend my gratitude to all the shareholders on behalf of the board of directors (the "Board") of the Company.

Year 2017 remained a challenging year for us. Despite the consumer sentiment in the PRC had gradually picked up, the growth momentum was remained low. With a view to building up our consumers' confidence, our management team had put tremendous efforts in promoting our products during the year ended 31 December 2017. However, to make our marketing and promotion efforts more focused and efficient, we spent most of the marketing and promotion budget on the key products lines during the year ended 31 December 2017. As a result, we had some savings in marketing and promotion that our advertising and promotion expenses decreased by approximately 27.7% to RMB170.5 million in 2017 when compared with the corresponding period in 2016.

During the year ended 31 December 2017, there were mild growth in sales of our jelly products, confectionery products and beverages products when compared with last year. The Group's turnover for the year ended 31 December 2017 was RMB902.8 million, representing an increase of approximately 1.1% as compared to the year ended 31 December 2016. The gross profit margin of the Group for the year ended 31 December 2017 decreased by approximately 2.2 percentage points, as compared to the corresponding period in 2016. For the year ended 31 December 2017, the Group recorded a net loss of RMB289.4 million, representing a decrease of 51.9% from the net loss of RMB601.7 million for the year ended 31 December 2016. The decrease in net loss was primarily attributable to (i) the amount of provision for impairment of property, plant and equipment recognized for the year ended 31 December 2017 of approximately RMB94.5 million was RMB147.0 million lower than the amount recognized for the year ended 31 December 2016 and (ii) there was no provision for impairment of loan receivable in the current year (2016: RMB92.6 million).

During the year ended 31 December 2017, we had spent RMB124.8 million in capital expenditure mainly for the upgrade of production lines in various production plants. In 2017, the Group had RMB68.5 million operating cash outflow which was mainly due to operating loss during the year. As at 31 December 2017, the gearing ratio of the Group was 92.1%. The Group is committed to maintain sufficient cash and available banking facilities for its working capital requirements and for capitalizing on any potential investment opportunities in the future.

With the consumer sentiment in the PRC remaining weak, the market demand for the Group's snack products did not show a remarkable rebound during the year ended 31 December 2017. Although the Group had recorded a mild growth in revenue in the major product categories, the Directors considered that a complete and strong recovery will not happen in the short term. To build a solid foundation for mid-to-long term growth, the Group is committed to (i) take proactive steps in marketing its brand image and products in 2018, (ii) launch new jelly and beverages products from time to time to offer better choices to the consumers and (iii) restructure and consolidate its production facilities to enhance its production and logistic efficiency. The Directors believe that these measures will bring positive impacts to the Group's financial performance in the longer run.

While the near-term outlook for the snacks products sector of the PRC remains challenging, however, the country's ongoing economic reforms and the continuous expansion of middle and upper class population will propel growth in retail consumption in the long run. Therefore, the Directors are cautiously optimistic to the long term development of the Group's business.

The Group cannot overcome the difficulties without a strong and committed management team. Therefore I would like to take this opportunity to thank the Board and my best team of colleagues for providing me with unceasing support during this challenging year. I greatly appreciate your efforts, commitment and unstinting enthusiasm. I look forward to seeing your continuous involvement in our road ahead.

Yours sincerely

ZHENG YU HUAN
Chairman


ANGRY BIRDS
麦丽素!
my likes chocolate products
净含量:80g 麦丽素巧克力
Finest Selection
燕麦巧克力
CHOCOLATE
净含量/规格:280克


综合口味
ANGRY BIRDS
可吸果冻

Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31 December 2017, Labixiaoxin Snacks Group Limited (the "Company" and together with its subsidiaries, the "Group") has reported revenue of approximately RMB902.8 million, representing an increase of approximately 1.1% as compared with the corresponding period of last year. The increase in the reported revenue was mainly due to the gradual improvement in consumer sentiment of the snacks products in the People's Republic of China (the "PRC"). The sales performance in major categories of the Group's products recorded a mild increment during the year under review. However, due to the inflation in costs of certain major raw materials which cannot be wholly passed onto our consumers as the snacks products market remained competitive in the PRC, the profit margins of certain of our products narrowed in the year ended 31 December 2017. The Group's gross profit for the year ended 31 December 2017 fell by approximately 7.8% as compared with the corresponding period in 2016.

For the year ended 31 December 2017, the Group recorded a net loss of RMB289.4 million, representing a decrease of approximately 51.9% from the net loss of RMB601.7 million in the same period last year.

REVENUE

Revenue of the Group increased by approximately 1.1% to RMB902.8 million for the year ended 31 December 2017 when compared with the corresponding period in 2016. During the year ended 31 December 2017, the Group mainly focused its efforts in marketing and promotion on key product lines so as to improve the marketing efficiency. Advertising and promotion expenses decreased by approximately 27.7% from RMB235.7 million for the year ended 31 December 2016 to RMB170.5 million for the year ended 31 December 2017. As at 31 December 2017, the Group had a total number of 576 distributors (as at 31 December 2016: 449).

Jelly products

Sales of jelly products increased by approximately 0.5% from RMB596.0 million for the year ended 31 December 2016 to RMB599.2 million for the year ended 31 December 2017, primarily due to the gradual improvement in the consumption sentiments of snacks products in the PRC. In addition, there was no major sales return from the Group's distributors during the year ended 31 December 2017. Revenue attributable to jelly snacks increased by approximately 2.4% to RMB363.1 million while revenue attributable to jelly beverages decreased by approximately 2.2% to RMB236.1 million.

Confectionary products

Confectionary products also recorded a mild growth in revenue during the year ended 31 December 2017. Sales of confectionary products increased by approximately 2.1% from RMB162.3 million for the year ended 31 December 2016 to RMB165.7 million for the year ended 31 December 2017. The increase was mainly due to continued increase in demand in overseas markets.

Beverage products

Revenue of beverages products increased by approximately 18.0% to RMB73.6 million for the year ended 31 December 2017, representing approximately 8.2% of the total revenue of the Group. The increase in revenue of beverages products during the year under review was mainly due to the fruit and vegetable beverages were well received by the customers as the customers are more health conscious.

Despite the improvement in revenue for the beverages segment, the sales and production volumes of the beverages products did not reach the optimum level of the production capacity. The Group will continue to launch new beverages products with an objective to meet the needs of different customers. Whilst the Company remains confident that the Group's beverages products are of decent quality, it is uncertain whether these products will be well perceived by the market and whether it will bring decent financial contribution to the Group.

Other snacks products

For the year ended 31 December 2017, sales of other snacks products dropped by approximately 11.0% to RMB64.3 million which was mainly due to the Group decided to sell less milk tea products during the year as their profit margins were relatively thin.

COST OF SALES AND GROSS PROFIT

Cost of sales increased by approximately 4.0% to RMB699.6 million for the year ended 31 December 2017. The increase was mainly attributable to the corresponding increase in revenue and the increase in purchase prices of certain major raw materials. Gross profit dropped by approximately 7.8% to RMB203.2 million for the year ended 31 December 2017 which was mainly due to the increased purchase prices of certain major raw materials, for example the cost of packaging materials increased by over 30% during the year under review.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses decreased by approximately 20.9% to RMB233.7 million for the year ended 31 December 2017, which was primarily due to a decrease in advertising and promotion spending. During the year under review, the Group focused its marketing efforts on key product lines and thus had some saving in advertising and promotion spending. Advertising and promotion expenses decreased by approximately 27.7% to RMB170.5 million during the year under review.

The general market demand for the Group's products has remained weak. While the Group will continue to exercise tight costs control on advertising and promotion expenses, the Group will continue to enhance its media exposure and arrange on-site promotion for new or core products with an objective to bring positive message to its consumers and enhance brand recognition within the market.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group decreased by approximately 36.7% to RMB99.2 million for the year ended 31 December 2017, which was mainly due to there was no one-off inventories write-off in 2017.

During the year ended 31 December 2016, there was a one-off inventories write-off of RMB33.9 million.

OTHER LOSSES

Balance primarily comprised of loss on disposal of property, plant and equipment and net exchange differences. During the year under review, the Group had disposed of the property, plant and equipment mainly in relation to a Tetra Pak beverages production line in Anhui production plant due to the Group's decision in ceasing the production of such packaging products. As a result, a loss on disposal of the property, plant and equipment of approximately RMB80.0 million was recorded for the year ended 31 December 2017.

IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT

The poor results of the Group's jelly products segment for the year ended 31 December 2017 were primarily due to the following reasons:

(i) the consumer sentiment in the PRC for the year ended 31 December 2017 remained weak, as a result of which the market demand for the Group's snack products did not show a remarkable rebound;

(ii) the purchase prices of certain major raw materials have increased, for example, the packaging materials has increased by over 30%. Further, such increased costs cannot be passed to the consumers as the snacks products market is competitive in the PRC; and

(iii) as the general market demand for the Group's products has remained weak, the Group has reduced its expenses on advertising and promotion by approximately 27.7% to RMB170.5 million during the year ended 31 December 2017. In light of the decrease in advertising and promotion which has caused less exposure of the Group's products in the market and led to the poor results of the jelly products segment.

Due to the poor results of the Group's jelly products segment during the year ended 31 December 2017, the Group considered it was an indication that the property, plant and equipment for the jelly products segment (the "Relevant PPE") may be impaired. Accordingly, the Group engaged an independent valuer to carry out an impairment testing on the Relevant PPE in January 2018 and noted an impairment loss of approximately RMB94.5 million on the property, plant and equipment was required as at 31 December 2017. The recoverable amount of the Relevant PPE was determined based on a value-in-use calculation. The value-in-use of property, plant and equipment is estimated based on (a) the estimated future cash flow to be generated from the continuing use of those assets; and (b) an appropriate discount rate to such estimated future cash flow i.e. a pre-tax discount rates of 17.09%. The valuation method is consistent with the method adopted by the Company for the year ended 31 December 2016.

TAXATION

The credit amount of the Group's income tax during the year under review was mainly due to the deferred tax assets recognized for the tax losses of the Group's subsidiaries in the PRC.

NET LOSS FOR THE YEAR

The Group recorded a net loss of RMB289.4 million for the year ended 31 December 2017 (2016: RMB601.7 million). The decrease in net loss was primarily attributable to (i) the amount of provision for impairment of property, plant and equipment recognized for the year ended 31 December 2017 of approximately RMB94.5 million is RMB147.0 million lower than the amount recognized for the year ended 31 December 2016 and (ii) there is no provision for impairment of loan receivable in the current year (2016: RMB92.6 million).

FINANCIAL REVIEW

Financial resources and liquidity

The Group mainly finances its operations and capital expenditures by cash and bank balances, operating cash flows and bank borrowings.

As at 31 December 2017, the cash and bank balances amounted to RMB72.8 million which was RMB154.5 million less than the balance as at 31 December 2016. The decrease in cash and bank balances was mainly due to the capital expenditures of RMB124.8 million incurred by the Group for the year ended 31 December 2017.

As at 31 December 2017, the Group's gearing ratio (total borrowings divided by total equity) was 92.1% (as at 31 December 2016: 65.9%). The Group 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.

Cash flow

The Group recorded net cash outflow from operating activities of RMB68.5 million for the year ended 31 December 2017 (2016: RMB78.2 million). The Group has spent RMB105.5 million in investing activities for the year ended 31 December 2017 mainly for the upgrade of production lines of the production plants. The Group has net cash inflow from financing activities of RMB19.6 million for the year ended 31 December 2017 which was mainly due to new bank borrowings secured during the year under review offset by the repayment of matured bank borrowings.

Capital expenditure

During the year ended 31 December 2017, the Group incurred RMB124.8 million in capital expenditure mainly for the upgrade of production lines of the production plants.

Inventory analysis

The Group's inventories primarily consist of finished goods of jelly products, confectionary products, beverage products and other snacks products, as well as raw materials and packaging materials. As at 31 December 2017, the balance decreased by RMB10.2 million from the beginning of the year. The inventories turnover days for the years ended 31 December 2017 and 2016 were 41 days and 42 days, respectively.

Trade receivables

Trade receivables mainly represent the balance due from wholesale distributors. The Group typically sells its products on credit and grant 90 days credit to most of the wholesale distributors. The balance increased by RMB44.2 million from the beginning of the year mainly due to better sales performance in December 2017 than in the corresponding period of 2016. The trade receivable turnover days for the years ended 31 December 2017 and 2016 were 103 days and 91 days, respectively. Subsequent to the year ended 31 December 2017 and up to the date of this Annual Report, approximately RMB209.2 million of the trade receivables were settled by the wholesale distributors.

Entrusted loan receivable

On 19 June 2015, a wholly-owned subsidiary of the Group (the "Lender") entered into an entrusted loan agreement with a PRC bank, as the lending agent (the "Lending Bank"), and an independent PRC third party entity (the "Borrower"), pursuant to which the Lender, agreed to grant the entrusted loan in the principal amount of RMB250 million (the "Entrusted Loan") to the Borrower (the "Entrusted Loan Agreement"). The purpose of granting the Entrusted Loan by the Group was to better utilize the surplus cash of the Group under a short-term arrangement to generate higher interest income.

The Entrusted Loan is secured by (i) a personal guarantee of RMB250 million provided by a controlling shareholder of the Borrower; (ii) a corporate guarantee of RMB228.8 million given by a fellow subsidiary of the Borrower; and (iii) certain land parcels in the PRC valued at RMB30.3 million, as security to the obligations of the Borrower under the Entrusted Loan Agreement. The Entrusted Loan has a term of one year and bearing interest at 0.5% per month.

As of 31 December 2017, the Borrower has drawn up an aggregate amount of RMB220 million of the Entrusted Loan with interests accrued in the amount of approximately RMB1.1 million (the "Outstanding Amounts"). The Entrusted Loan matured and shall be repaid by the Borrower on 18 June 2016. However, up to the date of this Annual Report, the Borrower has not repaid the Outstanding Amounts.

On 10 March 2017, the Lending Bank initiated a legal proceeding (the "Legal Proceeding") with the Quanzhou Intermediate People's Court in the People's Republic of China against the Borrower as well as its fellow subsidiary and its controlling shareholder (i.e. Mr. Hong) (collectively, the "Defendants"), claiming for:

(i) repayment of (a) the principal amount of the Entrusted Loan in the amount of RMB220 million; together with (b) the interests to be accrued for the period from 21 May 2016 up till the date of actual repayment;

(ii) forced sales of the assets (i.e. the land situated in Luojiang District, Quanzhou City, Fujian Province) charged by the Borrower to the Lending Bank pursuant to the Entrusted Loan Agreement;

(iii) that the fellow subsidiary of the Borrower (being the entity which provided the corporate guarantee as security for the Entrusted Loan) and Mr. Hong (the controlling shareholder of the Borrower and who provided the personal guarantee as security for the Entrusted Loan) be jointly liable for the repayment obligation under the Entrusted Loan Agreement; and

(iv) the Defendants be liable to settle the costs for the Legal Proceeding.

Based on the best estimate taking into account all the relevant information currently available to the Company, the Company anticipates that the recoverable amount for the Entrusted Loan would be approximately RMB128.5 million, and a provision for impairment of approximately RMB92.6 million has been made in the consolidated financial statements of the Group for the year ended 31 December 2016.

As at the date of this Annual Report, the Legal Proceeding is still at a preliminary stage and further announcement(s) will be made by the Company as and when appropriate.

For further details, please refer to the announcements of the Company dated 9 August 2016, 18 August 2016 and 10 March 2017.

Trade payables

Trade payables mainly represent the balances due to the Group's suppliers who generally grant credit terms ranging from 30 days and 60 days to the Group. Trade payables turnover days for the years ended 31 December 2017 and 2016 were 152 days and 80 days respectively.

Bill payables

As at 31 December 2017, bills payable of the Group amounting to RMB93.0 million were secured by pledged bank deposits of RMB43.3 million. As at 31 December 2017, the bills payable were with maturity period within 1 year.

Foreign exchange fluctuations

The Group earns revenue and incur costs and expenses mainly in Renminbi. The Group is exposed to certain foreign exchange fluctuations arising mainly from the exposure of Renminbi against Hong Kong dollar and US dollar. During the year ended 31 December 2017, the Group did not enter into forward contracts to hedge the foreign exchange exposures as the Directors considered the financial benefits of such forward contracts may not outweigh their costs. The Company will continue to monitor foreign exchange changes to best preserve the Group's cash value.

Charges on assets

As at 31 December 2017, land and building of the Group in Hong Kong with net book value of RMB7.5 million was pledged as security for mortgage loan (31 December 2016: RMB8.0 million).

Contingent liabilities

As at 31 December 2017, the Group had no contingent liabilities (31 December 2016: Nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2017, the Group had approximately 1,940 employees (including part-time employees) (2016: 2,130 employees) and the total remuneration expenses for the year ended 31 December 2017 amounted to RMB127.1 million. The employees' salaries are reviewed and adjusted annually based on employee's performance and experience. The Group's employee benefits include performance bonus, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff.

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

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no significant investments, material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2017 (2016: Nil). Further, there was no plan authorised by the Board for other material investments or additional capital assets as at the date of this Annual Report.

PROSPECTS

With the consumer sentiment in the PRC remaining weak, the market demand for the Group's snack products did not show a remarkable rebound during the year ended 31 December 2017. Although the Group had recorded a mild growth in revenue in the major product categories, the Directors considered that a complete and strong recovery will not happen in the short term.

To build a solid foundation for mid-to-long term growth, the Group will (i) take proactive steps in marketing its brand image and products in 2018, including the launch of advertisements through different media channels such as sponsoring popular TV programs, participating at various food fairs and exhibitions, and collaborating with distributors and retailers for on-site promotion activities etc., (ii) launch new jelly and beverages products from time to time to offer better choices to the consumers and (iii) restructure and consolidate its production facilities to enhance its production and logistic efficiency. The Directors believe that these measures will bring positive impacts to the Group's financial performance in the longer run.

While the near-term outlook for the snacks products sector of the PRC remains challenging, however, the country's ongoing economic reforms and the continuous expansion of middle and upper class population will propel growth in retail consumption in the long run. Therefore, the Directors are cautiously optimistic to the long term development of the Group's business.

KEY RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Business Risk

The snack food industry is subject to changes in consumer perception, preferences and tastes. The Group's business and financial performance depends on factors which may affect the level and pattern of consumer spending in the PRC. Such factors include consumer preferences and tastes, consumer confidence, consumer incomes and consumer perceptions of the safety and quality of the Group's products.

Industrial Risk

The snacks food industry is subject to potential food safety and health issues with the raw materials and finished products. If our raw materials or finished products are alleged or found to be spoiled, contaminated, tampered with, incorrectly labeled, unsafe or otherwise associated with food safety incidents, we could be subject to product liability claims, adverse publicity and regulatory investigation, intervention or penalties, product returns, any of which may result in increased costs as well as damage to our brands and reputation. Food safety and health issues may arise with respect to our products as a result of numerous factors, many of which may be outside our control, including as a result of actions by our suppliers, our subcontracting manufacturers, our distributors, their sub-distributors and key account agents.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. The Group recognises that operational risks cannot be eliminated completely and that it may not always be cost effective to do so.

Key functions in the Group are guided by their operating procedures, limits of authority and reporting framework. The Group will identify and assess key operational exposures from time to time and report such risk issues to senior management as early as possible so that appropriate risk response can be taken.

Financial Risk

The financial risk management of the Group are set out in Note 4 to the consolidated financial statements.

Biographical Details of Directors and Senior Management

DIRECTORS

ZHENG YU HUAN — Chairman and Executive Director

Mr. Zheng Yu Huan, aged 47, is an executive Director. He was appointed as the chairman of the Board of Directors of the Company since 17 March 2015. 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 overall management in particular on 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 19 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.

ZHENG YU SHUANG — Chief Executive Officer and Executive Director

Mr. Zheng Yu Shuang, aged 49, 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 is the head of 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 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 21 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 from Renmin University of China（中國人民大學）in May 2006. 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 LONG — Executive Director

Mr. Zheng Yu Long, aged 52, is 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 23 years of experience in the marketing and manufacturing of snack food products. Since joining the Group in 2000, Mr. Zheng has dedicated the past 17 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 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. Mr. Zheng is the brother of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan and the brother-in-law of Mr. Li Hung Kong.

LI HUNG KONG — Vice Chairman and Non-Executive Director

Mr. Li Hung Kong, aged 49, 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 21 years of experience in investing and managing manufacturing business. He is also a director of the Group's 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 42, 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 Ronshine China Holdings Ltd., (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), stock code 3301) and an independent non-executive director of International Entertainment Corporation (a company listed on the Main Board of the Stock Exchange, stock code 1009). From November 2017 to December 2017, Mr. Ren has served as a non-executive director and chairman of the board of directors of AVIC Joy Holdings (HK) Limited (a company listed on the Main Board of the Stock Exchange; stock code: 260). From April 2015 to May 2017, Mr. Ren has served as an independent director of SPI Energy Co., Ltd. (a company listed on the NASDAQ; stock code: SPI). From June 2016 to October 2016, Mr. Ren has served as a supervisor (as shareholders' representative) of the fifth session of the supervisory committee of Dongjiang Environmental Company Limited, (a company listed both on the Main Board of the Stock Exchange under the stock code of 895 and the Small and Medium Enterprise Board of the Shenzhen Stock Exchange under the stock code of 2672). From March 2012 to June 2015, Mr. Ren has served as an independent director and the chairman of audit committee of IDI, Inc. (a company listed on New York Stock Exchange AMEX; stock code: IDI). From February 2011 to April 2018, Mr. Ren has served as a non-executive director of China Child Care Corporation Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1259).

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.

LI ZHI HAI — Independent Non-Executive Director

Mr. Li Zhi Hai, aged 63, 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 was a Chinese People's Liberation Army before he became a national civil servant. From medical to health industry, Mr. Li accumulated experience in planning, management and operation in the traditional Chinese medicine and food industry for several decades. He also served key leadership positions and expert advisers in health industry enterprises, government and industry associations. Mr. Li currently serves as the director of Chinese Medicine Industry Research Institute (中醫藥行業專病研究所所長), the dean of Tangshan Chinese and Western Medicine Specialist Hospital (唐山中西醫專科醫院),the director of Beijing Guofang Traditional Chinese Medicine Research Center (北京國方中醫藥研究院), the vice-president of the China Medicine Culture Research Center (中國藥文化研究會), the vice-president of Chinese Food Culture Research Association (食文化研究會), 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), member of National Development and Reform Commission (國家發改委), director of the health center of China Society of Economic Reform (中國經濟體制改革研究會), expert adviser of health industry pilot office of International Cooperation Center (國際合作中心健康產業試點辦公室健康產業諮詢專家), the first deputy director, executive vice-president and health consultant of strategic development committee of China Life Science Association (中國人生科學學會戰略發展委員會第一副主任、執行副會長和健康顧問), secretary general of Mental Health Education Expert Commission (心理健康教育專家委員會).

SUN KAM CHING — Independent Non-Executive Director

Ms. Sun Kam Ching, aged 45, is the independent non-executive Director. She was appointed as an independent non-executive Director on 23 September 2011. Ms. Sun has over 19 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 the 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 has been appointed as an independent non-executive director of China Creative Home Group Limited (stock code: 1678 • HK) since 2013. Ms. Sun received a bachelor's degree in business administration from the Huaqiao University (華僑大學) in 1994. She also attended the training courses for independent non-directors conducted by the Shenzhen Stock Exchange in 2008.

CHUNG YAU TONG — Independent Non-Executive Director

Mr. Chung Yau Tong, aged 46, is the independent non-executive Director. He was appointed as an independent non-executive Director on 23 September 2011. Mr. Chung has 22 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 International Business Settlement Holdings 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. Chan Yee Lok, aged 43, 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 19 years of accounting, financing, auditing and company secretarial experience. Mr. Chan graduated from the 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 55, is the head of our sales and marketing department. He is responsible for the overall sales and marketing of our products. He has over 18 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 53, 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 18 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 the 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 47, is the head of our 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 18 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 the Gansu Agricultural University (甘肅農業大學) in June 1994.

Save as otherwise disclosed, there is no relationship (including financial, business, family or other material/relevant relationship) between any members of the Board, and no information relating to the Directors which is required to be disclosed pursuant to Rules 13.51(2) and 13.51 B(1) of the Listing Rules.

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 2017.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to promote stringent corporate governance practices and procedures with a view to safeguard the interests of shareholders as well as enhance investor confidence and the Company's accountability and transparency. The Company set out its corporate governance practices by reference to the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules. During the year ended 31 December 2017, the Company has complied with all the code provisions set forth under the CG Code and there has been no deviation from the code provisions throughout the year ended 31 December 2017.

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. The Board directly, and indirectly through its Board committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

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.

The composition of the Board during the year ended 31 December 2017 and up to the date of this Annual Report is set out below:

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

Non-Executive Directors
Mr. Li Hung Kong *(Vice-Chairman)*
Mr. Ren Yunan

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 20 to 23 of this Annual Report.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

During the year ended 31 December 2017, 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 2017, 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 Huan, 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.

Directors' Attendance Records

During the year ended 31 December 2017, four 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 2017 annual general meeting (the "2017 AGM") during the year ended 31 December 2017 are set out below:

	Attendance/Number of Meetings	
Name of Director	**Board Meetings**	**2017 AGM**
Mr. Zheng Yu Huan	4/4	1/1
Mr. Zheng Yu Shuang	4/4	1/1
Mr. Zheng Yu Long	3/4	0/1
Mr. Li Hung Kong	4/4	1/1
Mr. Ren Yunan	3/4	1/1
Mr. Li Zhi Hai	4/4	1/1
Ms. Sun Kam Ching	4/4	1/1
Mr. Chung Yau Tong	4/4	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 Directors' knowledge and skills from time to time. Further, the Company continuously updates the 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 2017, some of the Directors attended external seminars and/or conferences to update their general business and economic knowledges or statutory requirements, Listing Rules and other relevant topics related to listed company. The 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 Huan	A,B
Mr. Zheng Yu Shuang	A,B
Mr. Zheng Yu Long	B
Mr. Li Hung Kong	B
Mr. Ren Yunan	A,B
Mr. Li Zhi Hai	A,B
Ms. Sun Kam Ching	A,B
Mr. Chung Yau Tong	A,B

A: attending in-house/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 2017, 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 2017.

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 2017, 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 chairlady 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 2017, 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 2017 and the details of attendance are set out below:

Remuneration Committee Members	**Attendance/ Number of Meeting**
Ms. Sun Kam Ching *(Chairlady 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 the financial information and reporting process, risk management and internal control systems and to provide advice and comments to the Board.

During the year ended 31 December 2017, the Audit Committee was primarily responsible:

- to make recommendations 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 risk management and internal control systems and ensure that management has discharged its duty to have effective systems;
- to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- to review the Group's financial and accounting policies and practices;
- to review the Group's connected transactions;
- 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 in the external auditor's management letter.

The Audit Committee held two meetings during the year ended 31 December 2017 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 and 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 2017. 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.

Risk management and Internal Controls

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions. All departments conducted internal control assessment on a regular basis to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department. The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems during the year ended 31 December 2017.

The internal audit department of the Company is responsible for providing internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Company has also 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 2017.

The Board, as supported by the Audit Committee as well as the management report and the findings of the internal audit department and the external consulting firm, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, of the Company during the year ended 31 December 2017, and considered that such systems are effective and adequate.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed an inside information policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

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 47 to 51.

During the year ended 31 December 2017, the Group's external auditor provided the following services to the Group:

Type of Services	Service fees RMB'000
Statutory audit services	2,145
Non-audit services – taxation	24
Total	2,169

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 2017 ("AGM") will be held on Friday, 15 June 2018. 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 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 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 32 to the consolidated 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.

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2017 are provided in the section headed "Chairman's Statement" on pages 6 and 7 and the section headed "Management Discussion and Analysis" on pages 10 to 19 of this Annual Report. An account of the Company's relationships with its key stakeholders is included in the paragraph headed "Relationships with Employees, Suppliers and Customers" of the report of the Directors on pages 36 to 46 of this Annual Report.

An analysis of the Group's performance during the year ended 31 December 2017 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 10 to 19 of this Annual Report.

In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Company are provided in the paragraph headed "Environmental, Social and Governance" of the report of the Directors on pages 36 to 46 of this Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 52.

DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: Nil).

There is no arrangement under which a shareholder has waived or agreed to waive any dividend.

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 Tuesday, 12 June 2018 to Friday, 15 June 2018 (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 Monday, 11 June 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 15 to the consolidated financial statements.

BORROWINGS

Particular of the borrowings of the Group as at 31 December 2017 is set out in Note 25 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 26 to the consolidated financial statements.

RESERVES

The movements in the reserves of the Group during the year are set out on page 55 of the consolidated financial statements.

FINANCIAL SUMMARY

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

DIRECTORS

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

Executive Directors:

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

Non-Executive Directors:

Mr. Li Hung Kong *(Vice-Chairman)*
Mr. Ren Yunan

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. Li Hung Kong and Mr. Chung Yau Tong shall retire from office as Directors by rotation at the forthcoming annual general meeting. 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 20 to 23 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 27 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.

CONNECTED TRANSACTIONS

During the year ended 31 December 2017, the Company entered into the following connected transactions with a connected person of the Company:

(i) On 1 March 2017, the Company entered into a loan agreement with Mr. Zheng Yu Long, an executive director of the Company, for a loan of approximately RMB40,994,000. The amount is unsecured, repayable in December 2017 and bears fixed interest at 2% per annum. The amount was fully settled in December 2017.

(ii) On 29 December 2017, the Company entered into a loan agreement with Mr. Zheng Yu Long, an executive director of the Company, for a loan facility of RMB40,000,000. As at 31 December 2017, the Company had drawn down RMB22,660,000. The amount is unsecured, repayable on 31 December 2018 and bears fixed interest at 2% per annum.

Under the Listing Rules, Mr. Zheng Yu Long is a connected person to the Company and the loan facilities above constitute connected transactions for the Company under Chapter 14A of the Listing Rules. Since such transactions are conducted on normal commercial terms or better and are not secured by the assets of the Group, they are fully exempted from Shareholders' approval, annual review and disclosure requirements according to Rule 14A.90 of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Connected Transactions" above, 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.

PERMITTED INDEMNITY PROVISION

Each Director or other officer of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she may incur or sustain in or about the execution of the duties of his or her office or otherwise in relation thereto in accordance with the bye-laws of the Company.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, 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	45.97%	*1*
	Beneficial owner	119,935,060	9.02%	*2*
Zheng Yu Shuang	Interest of a controlled corporation	610,915,527	45.97%	*1*
Zheng Yu Huan	Interest of a controlled corporation	610,915,527	45.97%	*1*
Li Hung Kong	Interest of a controlled corporation	610,915,527	45.97%	*1*
Ren Yunan	Interest of a controlled corporation	100,000,000	7.52%	*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 119,935,060 Shares.

(3) Mr. Ren Yunan, is the sole director of and interested in the entire issued share capital of Thriving Market Limited. As at 31 December 2017, 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 7.0% 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 2017, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

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

The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to recognise and acknowledge the contributions of the Eligible Participants (as defined in paragraph (b) below) to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view (i) to motivating the Eligible Participants to optimize their performance efficiency to the benefit of the Group; and (ii) to attracting and retaining or otherwise maintaining an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

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

Initially, the maximum number of shares which may be issued upon the exercise of all the options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) shall not exceed 10% of the aggregate number of the shares in issue as at the date of the Listing, which was 112,560,000 shares, representing approximately 8.5% 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 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 Stock Exchange for the five 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 2017:

Grantee and position	Date of grant of options	Exercise price	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 2017	Approximate percentage of shareholding upon the exercise of the options
Other employees	30 March 2012	HK$2.68	8,000,000	–	(8,000,000)	–	0%
Other employees	30 September 2014	HK$1.19	33,000,000	–	–	33,000,000	2.48%
Other employees	10 July 2015	HK$0.89	30,000,000	–	–	30,000,000	2.26%
Other employees	14 November 2016	HK$0.47	30,000,000	–	–	30,000,000	2.26%
Total			101,000,000	–	(8,000,000)	93,000,000	7.00%

During the year ended 31 December 2017, 8,000,000 options were lapsed.

During the year ended 31 December 2017, 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 2017, 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)	45.97%	*2*
Zheng Yu Long	119,935,060	610,915,527	–	730,850,587 (L)	54.99%	*2*
Zheng Yu Shuang	–	610,915,527	–	610,915,527 (L)	45.97%	*2*
Zheng Yu Huan	–	610,915,527	–	610,915,527 (L)	45.97%	*2*
Li Hung Kong	–	610,915,527	–	610,915,527 (L)	45.97%	*2*
Thriving Market Limited	100,000,000	–	–	100,000,000 (L)	7.52%	*3*
Ren Yunan	–	100,000,000	–	100,000,000 (L)	7.52%	*3*

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) Mr. Ren Yunan is the sole director of and interested in the entire issued share capital of Thriving Market Limited. As at 31 December 2017, 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 7.0% 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 2017.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no significant investments, material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2017 (2016: Nil). Further, there was no plan authorised by the Board for other material investments or additional capital assets as at the date of this Annual Report.

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

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

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 2017, the Group had approximately 1,940 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 Annual Report, there was no outstanding or pending litigation and arbitration for the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company had maintained a sufficient public float throughout the year ended 31 December 2017.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group's largest customer and five largest customers accounted for approximately 2.2% (2016: 4.5%) and 7.2% (2016: 9.7%) 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 9.2% (2016: 15.8%) and 30.9% (2016: 37.5%) 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.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands that employees are valuable assets. The Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group's business is built on a customer-oriented culture. The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards and high quality products to its customers. During the year under review, there was no material and significant dispute between the Group and its suppliers and/or customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Environmental Protection Environmental conservation remains a key focus for the Group. The conscientious use of resources and adoption of best practices across the Group's businesses underlie its commitment to safeguarding the environment. The Group encourages environmental protection and comply with environmental legislation and promote awareness towards environmental protection to the employees.

The Group puts great emphasis in environmental protection and sustainable development. Through the establishment of an ever-improving management system, enhancement on procedure monitoring, energy conversation and environment protection were strongly promoted, leading to the remarkable achievement of environmental management. Several measures have been implemented by the Group in order to promote environmental protection.

Compliance with Laws and Regulations

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The audit committee of the Company is delegated by the Board to monitor the Group's practices on compliance with legal and regulatory requirements. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

As far as the Company is aware, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

Workplace Quality

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics. The Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behavior, employees' rights and benefits. The Group also establishes and implements policies that promote a harmony and respectful workplace.

The Group believes that employees are the valuable assets of an enterprise and regards human resources as its corporate wealth. The Group provides on-the-job training and development opportunities to enhance its employees' career progression. Through different training, staff's professional knowledge in corporate operations, occupational and management skills are enhanced. The Group also organized charitable and staff-friendly activities for employees, such as outings, sport match and health talks to provide communication opportunities among staff, which are vital to promote staff relationship and physical fitness.

Health and Safety

The Group prides itself on providing a safe, effective and congenial work environment. Adequate arrangements, training and guidelines are implemented to ensure the working environment is healthy and safe. The Group provides health and safety communications for employees to present the relevant information and raise awareness of occupational health and safety issues.

The Group values the health and well-being of staff. In order to provide employees with health coverage, staff are entitled to medical insurance benefits as well as other health awareness programs.

Training and Development

The Group is committed to the professional and personal development and growth of all employees and considers training and development a continual process. Many on– and off-the-job training courses and programs are provided to help employees develop and maintain consistency, proficiency and professionalism. Structured training programmes including courses, seminars and workshops are offered to staff at all levels with the objective of grooming and unleashing their full potential, supporting, organizational development and facilitating team synergies. Employees are encouraged to take advantage of these programmes in order to equip themselves with the skills and knowledge for expanded career opportunities within the Group.

AUDITORS

The financial statements for the year ended 31 December 2017 have been audited by HLB Hodgson Impey Cheng Limited ("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 Huan
Chairman
Hong Kong, 29 March 2018

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)

OPINION

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 52 to 112, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately RMB289,405,000 during the year ended 31 December 2017 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB168,325,000. As stated in Note 2, these conditions, along with other matters as set forth in Note 2 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on property, plant and equipment	
Refer to note 3 and 15 of the consolidated financial statements. As at 31 December 2017, the Group had property, plant and equipment of approximately RMB944,129,000, which mainly comprised land and buildings of approximately RMB592,878,000, plant and equipment of approximately RMB348,997,000. A recent history of losses of the subsidiaries of the Group is an indicator of impairment for property, plant and equipment and hence an impairment assessment is required. We focused on this area because the balance of property, plant and equipment was significant and these assessment process is complex and highly subjective which based on the selection of appropriate comparables and assumptions such as discount rate, future revenue. The Group engaged an external valuer to perform the valuation for the recoverable amount of the property, plant and equipment.	Our procedures in relation to management's impairment assessment included: • Evaluating the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumption based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking on a sampling basis, the accuracy and relevance of the input data used. We found that the assumptions made by management for impairment assessment were supported by the available evidence.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on trade and loan receivable	
Refer to note 3, 19 and 21 of the consolidated financial statement. The Group has trade receivables and loan receivables of approximately RMB305,946,000 and RMB128,500,000 respectively. During the year ended 31 December 2017, an impairment of trade receivables RMB1,073,000 (2016: RMB Nil) was recognised in the consolidated statement of profit or loss and other comprehensive income. During the year ended 31 December 2016, the Group had recognised impairment loss on loan receivable for approximately RMB92,600,000. No further impairment has to be provide for the year ended 31 December 2017. Management judgement is required in assessing and determining the recoverability of trade and loan receivables and adequacy of allowance made. The judgement mainly includes estimating and evaluating expect future receipts from customers based on past payment trend, age of the debtors, knowledge of the customers' business and financial condition.	Our procedures in relation to management's impairment assessment on trade and loan receivables included: • Discussing the Group's procedures on credit limits and credit periods given to customers with the management; • Evaluating the management's impairment assessment of trade and loan receivables; • Assessing, validating and discussing with the management and evaluating their assessment on the recoverability of the outstanding debts and the adequacy of allowance made based on the trade and loan receivables ageing analysis, collections subsequent to the end of the reporting period, past collection history and trend analysis and knowledge of the businesses, with focus on long outstanding debts and debts which are past due but not impaired; and • Checking on a sample basis, the accuracy and relevance of information included in the impairment assessment of trade and loan receivables. We found the recoverable amount of trade and loan receivable was supported by the available information.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "Other Information").

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

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

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

AUDITORS' RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Shek Lui.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 29 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	6	902,795	892,854
Cost of sales		(699,550)	(672,409)
Gross profit		203,245	220,445
Other income	7	15,095	14,873
Other losses, net	8	(78,182)	(71,621)
Impairment loss on property, plant and equipment	10	(94,535)	(241,517)
Impairment loss on loan receivable	10	–	(92,600)
Selling and distribution expenses		(233,691)	(295,241)
Administrative expenses		(99,169)	(156,729)
Operating loss		(287,237)	(622,390)
Finance income		2,070	7,690
Finance costs		(42,725)	(20,930)
Finance costs, net	9	(40,655)	(13,240)
Loss before taxation	10	(327,892)	(635,630)
Taxation	11	38,487	33,964
Loss and total comprehensive loss for the year		(289,405)	(601,666)
Loss per share attributable to equity holders of the Company (RMB per share)	12		
– Basic		(0.22)	(0.45)
– Diluted		(0.22)	(0.45)

Details of dividends to equity holders of the Company are set out in Note 13.

The notes on pages 57 to 112 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Land use rights	*14*	**134,342**	137,658
Property, plant and equipment	*15*	**944,129**	929,636
Deposits for property, plant and equipment	*16*	**41,170**	202,895
Deferred income tax assets	*17*	**130,490**	92,003
		1,250,131	1,362,192
Current assets			
Inventories	*18*	**63,976**	74,165
Trade receivables	*19*	**305,946**	261,778
Prepayments and other receivables	*20*	**131,788**	128,564
Loan receivable	*21*	**128,500**	128,500
Pledged bank deposits	*22*	**43,300**	50,756
Cash and cash equivalents	*23*	**72,833**	227,303
		746,343	871,066
Total assets		**1,996,474**	2,233,258
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*26*	**470,030**	470,030
Share premium	*26*	**615,656**	615,656
Other reserves	*33*	**102,126**	111,664
Accumulated losses		**(337,546)**	(57,679)
Total equity		**850,266**	1,139,671

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	*17*	**31,540**	31,540
Bank borrowings	*25*	**200,000**	200,000
		231,540	231,540
Current liabilities			
Trade and other payables	*24*	**331,429**	310,982
Bank borrowings	*25*	**583,239**	551,065
		914,668	862,047
Total liabilities		**1,146,208**	1,093,587
Total equity and liabilities		**1,996,474**	2,233,258
Net current (liabilities)/assets		**(168,325)**	9,019
Total assets less current liabilities		**1,081,806**	1,371,211

Approved and authorised for issue by the board of directors on 29 March 2018:

Zheng Yu Huan
Director

Zheng Yu Shuang
Director

The Notes on pages 57 to 112 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Notes	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 *(Note 33(a))*	Statutory reserves RMB'000 *(Note 33(b))*	Share option reserves RMB'000 *(Note 33(c))*	Currency translation reserve RMB'000	Other reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
Balance as at 1 January 2016		405,030	563,056	(87,600)	160,056	19,993	(41)	858	554,926	1,616,278
Issue of new shares		65,000	52,600	–	–	–	–	–	–	117,600
Loss and total comprehensive loss for the year		–	–	–	–	–	–	–	(601,666)	(601,666)
Employee share-based payments		–	–	–	–	7,459	–	–	–	7,459
Transfer to statutory reserves	*33(b)*	–	–	–	10,939	–	–	–	(10,939)	–
Balance as at 31 December 2016 and 1 January 2017		470,030	615,656	(87,600)	170,995	27,452	(41)	858	(57,679)	1,139,671
Loss and total comprehensive loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(289,405)**	**(289,405)**
Lapse of share option		**–**	**–**	**–**	**–**	**(9,538)**	**–**	**–**	**9,538**	**–**
Balance as at 31 December 2017		**470,030**	**615,656**	**(87,600)**	**170,995**	**17,914**	**(41)**	**858**	**(337,546)**	**850,266**

The Notes on pages 57 to 112 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Loss for the year		**(289,405)**	(601,666)
Adjustments for:			
– Income tax credit recognised in profit or loss		**(38,487)**	(33,964)
– Amortisation and depreciation		**79,836**	124,300
– Impairment loss on property, plant and equipment	*15*	**94,535**	241,517
– Impairment loss on loan receivable		**–**	92,600
– Provision for impairment on trade receivable	*19*	**1,073**	–
– Loss on disposal of property, plant and equipment		**80,043**	67,203
– Interest income on bank deposits		**(2,070)**	(1,061)
– Interest income on loan receivable		**–**	(6,629)
– Finance costs recognised in profit or loss		**42,725**	20,930
– Employee share-based payments		**–**	7,459
– Write-off of inventories		**–**	33,891
Operating cash flow before working capital changes		**(31,750)**	(55,420)
– Increase in trade receivables, prepayments and other receivables		**(44,771)**	(120,990)
– Decrease/(increase) in inventories		**10,189**	(10,617)
– (Decrease)/increase in trade and other payables		**(2,213)**	115,230
Cash used in operations		**(68,545)**	(71,797)
Income tax paid		**–**	(6,382)
Net cash used in operating activities		**(68,545)**	(78,179)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(12,169)**	(152,533)
Deposits paid for property, plant and equipment		**(112,653)**	(107,495)
Increased in loan receivable		**–**	(1,100)
Proceeds from disposal of property, plant and equipment		**17,262**	11,188
Interest received on bank deposits		**2,070**	1,061
Interest received on loan receivable		**–**	6,629
Net cash used in investing activities		**(105,490)**	(242,250)
Cash flows from financing activities			
Proceeds from bank borrowings		**715,800**	886,335
Repayments of bank borrowings		**(683,626)**	(411,288)
Proceeds from loan from a director		**42,660**	–
Repayment of loan from a director		**(20,000)**	–
Decrease/(Increase) in pledged bank deposits		**7,456**	(50,756)
Interest paid		**(42,725)**	(20,930)
Net cash generated from financing activities		**19,565**	403,361
Net (decrease)/increase in cash and cash equivalents		**(154,470)**	82,932
Cash and cash equivalents as at the beginning of the year		**227,303**	144,371
Cash and cash equivalents as at the end of the year		**72,833**	227,303

The notes on pages 57 to 112 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 manufacturing and sales 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 consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2018.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all International Accounting Standards ("IAS") and related interpretations, as issued by the International Accounting Standards Board (the "IASB").

In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

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 realisable value in IAS 2 or value in use in IAS 36.

2 BASIS OF PREPARATION (Continued)

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.

The preparation of the consolidated financial statements in conformity with IFRSs 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 3.

The Group incurred a net loss of approximately RMB289,405,000 (2016: approximately RMB601,666,000) for the year ended 31 December 2017. As at 31 December 2017, the Group's current liabilities exceeded its current assets by approximately RMB168,325,000. Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements. Also, the directors are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the following considerations:

Mr. Zheng Yu Long, the substantial shareholder of the Company who have already provided the aggregate amount of the loan to the Group of approximately RMB22,660,000, have agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities as they fall due and carry on its business without a significant curtailment of operations in the twelve months from 31 December 2017.

In view of the above, the directors are of the opinion that there will be sufficient financial resources available to the Group to enable it to meet its liabilities as and when they fall due and to continue as a going concern. Accordingly, the directors have prepared the consolidated financial statements on a going concern basis.

2 BASIS OF PREPARATION (Continued)

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 standard, amendments and interpretations ("new IFRSs") issued by the IASB, which are effective for the Company's financial year beginning 1 January 2017. A summary of the new IFRSs are set out as below:

IAS 7 (Amendments)	Disclosure Initiative
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS12 (Amendments)	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

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

Amendments to IAS 7 Disclosure Initiative

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities by improving information about (i) changes in an entity's liabilities that relate to financing activities in the statement of cash flows; and (ii) the availability of cash and cash equivalents and restrictions affecting an entity's decisions to use the cash and cash equivalent balances (including foreign exchange controls or tax implications associated with cash repatriation).

The IAS7 (Amendments) defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The proposed amendments would require an entity to disclose the following changes in liabilities arising from financing activities (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining, or losing, control of subsidiaries or other businesses; and (iii) other non-cash changes (for example, the effect of changes in foreign exchange rates and changes in fair values).

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Also, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

Additional disclosure has been included in Note 23(b), to satisfy the new disclosure requirements introduced by the amendments to HKAS 7.

2 BASIS OF PREPARATION (Continued)

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

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

IFRS 2 (Amendments)	Classification and Measurement of share-based Payment Transaction[1]
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contract[1]
IFRS 9	Financial Instruments[1]
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation[2]
IFRS 10 and IAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 15 (Amendments)	Clarifications to IFRS 15 Revenue from Contracts with Customer[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contract[4]
IAS 19 (Amendments)	Employee Benefits[2]
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures[2]
IAS 28 (Amendments)	As part of Annual Improvements to IFRSs 2014-2016 Cycle[1]
IAS 40 (Amendments)	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvement to IFRS 2015-2017 Cycle[1]
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK (IFRIC) – Int 23	Uncertainty Over Income Tax Treatment[2]

1 Effective for annual periods beginning on or after 1 January 2018, with early application permitted.
2 Effective for annual periods beginning on or after 1 January 2019, with early application permitted.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021, with early application permitted.

Amendments to IFRS 2 Classification and Measurement of share-based Payment Transaction

The amendments clarify the accounting for the following classification and measurement issues under IFRS 2:

- Measurement of cash-settled share-based payments

  The amendments clarify that the fair value of liabilities for cash-settled share-based payments should be measured using the same approach as for equity-settled share-based payments i.e. using the modified grant date method. Therefore, in measuring the liability:

  - Market and non-vesting conditions are taken into accounting in measuring its fair value; and

  - The number of awards to receive cash is adjusted to reflect the best estimate of those expected to vest as a result of satisfying service and any non-market performance conditions.

- Classification of share-based payments settled net of tax withholdings

  The amendments introduce an exception so that a share-based payment transaction with net settlement feature for withholding an amount to cover the employee's tax obligations is classified as equity-settled in its entirety when certain conditions are met, even though the entity is then required to transfer cash (or other assets) to the tax authority to settle the employee's tax obligation.

2 BASIS OF PREPARATION (Continued)

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

Amendments to IFRS 2 Classification and Measurement of share-based Payment Transaction (Continued)

- Accounting for a modification of a share-based payment from cash-settled to equity-settled

  The amendments clarify that on such a modification the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognised to the extent that the goods or services have been received up to that date

  Any difference between the carrying amount of the liability derecognized and the amount recognised in equity at the modification date is recognised in profit or loss immediately.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required 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 accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value 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 attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. 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 is presented in profit or loss; and

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2 BASIS OF PREPARATION (Continued)

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

IFRS 9 Financial Instruments (Continued)

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised costs, fair value through profit or loss and fair value through other comprehensive income. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost will continue with their classification and measurements upon the adoption of IFRS 9.

Impairment

In general, the directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on rental and other receivables and fixed deposits with financial institutions. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

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

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of 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, 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 of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value 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.

The directors anticipate that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

2 BASIS OF PREPARATION (Continued)

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

IFRS 15 Revenue from Contracts with Customers

In May 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.

Based on the current business model, the directors do not expect the adoption of IFRS 15 would result in significant impact on the amounts reported on the Group's consolidated financial statements in the future. However, there will be additional qualitative and quantitative disclosures upon the adoption of IFRS 15.

IFRS 16 Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows.

Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at 31 December 2017, the Group has no operating lease commitment. The directors do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's result at this stage.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

(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, net" in the consolidated statement of profit or loss and other comprehensive income.

3.5 Land use rights

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

3 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.1 Financial assets (Continued)

(v) Impairment of financial assets (Continued)

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.

3.8.2 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 loss, net".

(ii) Other financial liabilities

Other financial liabilities including trade and other payables and bank 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.2 Financial liabilities and equity instruments (Continued)

(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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Share capital

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

3.12 Trade and other payables

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

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

3.13 Borrowings and borrowing costs

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

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

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

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

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

3.14 Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Current and deferred income tax (Continued)

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

Deferred income tax liabilities is provided on taxable temporary differences arising on investments in subsidiaries and associated company, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognised.

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

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

3.15 Employee benefits

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

3.16 Share-based payments

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Share-based payments (Continued)

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.

3.17 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3.20 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Related parties

(a) A person or entity that is preparing the consolidated financial statements of the Group.

(b) 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 the Group parent.

(c) 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.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

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

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of the person or that person's spouse or domestic partner.

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 directors of the Company are 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 the United States Dollar ("USD").

Currency risk arises when transactions are denominated in foreign currencies.

The Group's currency exposure as at 31 December 2017 and 2016 is as follows:

	RMB RMB'000	HKD RMB'000	USD RMB'000	Total RMB'000
As at 31 December 2017				
Financial assets				
Pledged bank deposits	43,300	–	–	43,300
Cash and cash equivalents	71,563	1,267	3	72,833
Trade and other receivables	370,664	314	–	370,978
Loan receivable	128,500	–	–	128,500
Financial liabilities				
Trade and other payables	(316,692)	(14,737)	–	(331,429)
Bank borrowings	(780,450)	(2,789)	–	(783,239)
Net financial liabilities	(483,115)	(15,945)	3	(499,057)
Currency exposure		(15,945)	3	(15,942)

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) ***Market risk*** (Continued)

(i) *Currency risk* (Continued)

	RMB RMB'000	HKD RMB'000	USD RMB'000	Total RMB'000
As at 31 December 2016				
Financial assets				
Pledged bank deposits	50,756	–	–	50,756
Cash and cash equivalents	220,257	2,977	4,069	227,303
Trade and other receivables	326,492	128	–	326,620
Loan receivable	128,500	–	–	128,500
Financial liabilities				
Trade and other payables	(301,497)	(9,485)	–	(310,982)
Borrowings	(695,090)	(3,555)	(52,420)	(751,065)
Net financial liabilities	(270,582)	(9,935)	(48,351)	(328,868)
Currency exposure		(9,935)	(48,351)	(58,286)

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:

	2017	2016
	Increase/(decrease)	
	Profit after tax RMB'000	Profit after tax RMB'000
The Group		
HKD against RMB		
– strengthened	**(797)**	(497)
– weakened	**797**	497
USD against RMB		
– strengthened	**–**	(2,418)
– weakened	**–**	2,418

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(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 2017, if the interest rate on all borrowings had been 100 basis points higher/lower with all other variables held constant, pre-tax profit for the year ended 31 December 2017 would have been approximately RMB7,832,000 lower/higher (2016 pre-tax profit: RMB7,511,000 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.

(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 consolidated statement of financial position. The Group's major classes of financial assets are bank deposits, trade and other receivables, loan receivable.

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. At the end of the reporting period, 1.15% (2016: 2.83%) and 4.81% (2016: 7.44%), of total trade receivable was due from the Group's largest customer and the five largest customers respectively. Management regularly reviews the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made irrecoverable amounts (see also Note 19). Bank deposits are mainly deposits with banks with good credit-ratings assigned by international credit-rating agencies.

In relation to the loan receivable, the Group reviews the receivable amount at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

(c) Liquidity risk

The Group's financial liabilities are all due within the next 12 to 36 months from the end of reporting period. The Group 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 and the continuing financial support by the substantial shareholders of the Company, 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 12 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 following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date of the Group can be required to pay:

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017					
Trade payables		**80,026**	**–**	**80,026**	**80,026**
Accruals and other payables		**251,403**	**–**	**251,403**	**251,403**
Bank borrowings	**5.39%**	**613,266**	**206,809**	**820,075**	**783,239**
		944,695	**206,809**	**1,151,504**	**1,114,668**
As at 31 December 2016					
Trade payables		74,202	–	74,202	74,202
Accruals and other payables		236,780	–	236,780	236,780
Bank borrowings	5.14%	576,410	218,650	795,060	751,065
		887,392	218,650	1,106,042	1,062,047

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.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total assets as shown in the consolidated statement of financial position.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.2 Capital risk management (Continued)

The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017 RMB'000	2016 RMB'000
Total borrowings	**783,239**	751,065
Total equity	**850,266**	1,139,671
Gearing ratio	**92.1%**	65.9%

4.3 Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, pledged bank deposits, trade and other receivables, loan receivable and the Group's financial liabilities, including trade and other payables and borrowings, approximate their fair values due to their short maturities. The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group 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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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.

(c) Estimated provision for impairment of trade receivables and loan receivable

The Group makes provision for impairment of trade receivables and loan receivable based on an assessment of the recoverability of trade receivables and loan receivable. Provisions are applied to trade receivables and loan receivable 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 loan receivable 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.

(e) Impairment losses for property, plant and equipment

Property, plant and equipment are assessed at the end of each reporting period to identify indications that they may be impaired. If any such indication exists, the recoverable amount of the property, plant and equipment is estimated. The recoverable amount of the property, plant and equipment is based on its value in use and the higher of its fair value less costs of disposal. These calculations of the value in use are determined based on cash flow projections with reasonable assumptions that represent management's best estimate of the range of economic conditions over the remaining useful life of the assets. Changes in facts and circumstances may result in revisions to whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit of loss in future years. And the fair value less costs of disposal 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.

(f) Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for finished goods and raw material based primarily on the latest invoice prices and current market conditions.

In addition, the directors perform an inventory review on a product-by-product basis at the end of each reporting period and assess the need for write-off of inventories.

(g) Going concern basis

As at 31 December 2017, the Group's current liabilities exceeded its current assets by RMB168,325,000. The use of going concern basis in the preparation of the financial statements require significant judgements and estimate. Please refer to Note 2 for details.

6 SEGMENT INFORMATION

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

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

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

i. Jelly products
ii. Confectionary products
iii. Beverages products
iv. Other snacks products

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

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

During the year ended 31 December 2017, none of the individual customer account for 10% or more of the Group's external revenue (2016: none). As at 31 December 2017 and 2016, majority of the Group's assets, liabilities and capital expenditure are located and utilised in the PRC.

6 SEGMENT INFORMATION (Continued)

	Year ended 31 December 2017				
	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	599,243	165,693	73,567	64,292	902,795
Cost of sales	(457,243)	(128,252)	(66,519)	(47,536)	(699,550)
Gross profit	142,000	37,441	7,048	16,756	203,245
Results of reportable segments	(108,278)	(5,129)	(11,915)	341	(124,981)

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

Results of reportable segments	(124,981)
Corporate income	19,667
Corporate expenses	(181,923)
Operating loss	(287,237)
Finance income	2,070
Finance costs	(42,725)
Loss before taxation	(327,892)
Taxation	38,487
Loss for the year	(289,405)

Amounts included in the measure of segment profit or loss:

	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Amortisation of land use rights	2,381	–	935	–	3,316
Depreciation of property, plant and equipment	53,533	–	21,404	1,583	76,520
Impairment loss on property, plant and equipment	94,535	–	–	–	94,535
Loss on disposal of property, plant and equipment	20,337	–	59,706	–	80,043
Provision of impairment on trade receivable	1,073	–	–	–	1,073

6 SEGMENT INFORMATION (Continued)

	Year ended 31 December 2016				
	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	595,988	162,280	62,332	72,254	892,854
Cost of sales	(453,280)	(116,142)	(46,495)	(56,492)	(672,409)
Gross profit	142,708	46,138	15,837	15,762	220,445
Results of reportable segments	(182,966)	(42,136)	(80,545)	(23,538)	(329,185)

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

Results of reportable segments	(329,185)
Corporate income	7,115
Corporate expenses	(300,320)
Operating loss	(622,390)
Finance income	7,690
Finance costs	(20,930)
Loss before taxation	(635,630)
Taxation	33,964
Loss for the year	(601,666)

Amounts included in the measure of segment profit or loss:

	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Amortisation of land use rights	2,381	–	935	–	3,316
Depreciation of property, plant and equipment	96,100	–	24,884	–	120,984
Impairment loss on property, plant and equipment	196,381	–	45,136	–	241,517
Loss on disposal of property, plant and equipment	4,548	–	62,655	–	67,203

6 SEGMENT INFORMATION (Continued)

Geographical information

During the years ended 31 December 2017 and 2016, the Group mainly operated in the PRC and most of the Group's revenue are derived from the PRC and most of the assets of the Group are located in the PRC as at 31 December 2017 and 31 December 2016. No analysis of the Group's result and assets by geographical area is disclosed.

7 OTHER INCOME

	2017	2016
	RMB'000	RMB'000
Rental income	**7,534**	9,796
Government subsidy	**2,464**	1,608
Sundry income	**–**	8
Gain on sales of raw materials and scrap materials	**5,097**	3,461
	15,095	14,873

8 OTHER LOSSES, NET

	2017	2016
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment	**(80,043)**	(67,203)
Net exchange gain/(losses)	**1,861**	(4,418)
	(78,182)	(71,621)

9 FINANCE COSTS, NET

	2017	2016
	RMB'000	RMB'000
Finance costs:		
Interest expenses on bank borrowings	**(42,219)**	(20,930)
Interest expenses in loan from a director	**(506)**	–
Total finance cost	**(42,725)**	(20,930)
Finance income:		
Interest income on bank deposits	**2,070**	1,061
Interest income on loan receivable	**–**	6,629
Total finance income	**2,070**	7,690
Finance costs, net	**(40,655)**	(13,240)

10 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2017 RMB'000	2016 RMB'000
Auditors' remuneration		
– Audit service	2,145	2,571
– Non-audit service	24	15
Staff costs (including directors' remuneration)		
– Salaries and bonuses	113,900	108,534
– Employer's contribution to defined contribution plans	13,154	13,198
– Employee share-based payment	–	7,459
Advertising and promotion expenses	170,507	235,695
Amortisation of land use rights (Note 14)	3,316	3,316
Depreciation of property, plant and equipment (Note 15)	76,520	120,984
Loss on disposal of property, plant and equipment	80,043	67,203
Impairment loss on property, plant and equipment (Note 15)	94,535	241,517
Impairment loss on loan receivable (Note 21)	–	92,600
Impairment loss on trade receivable	1,073	–
Write-off of inventories	–	33,891
Cost of inventory sold	552,667	480,049
Freight and transportation expenses	3,795	3,780

11 TAXATION

	2017 RMB'000	2016 RMB'000
Current income tax – PRC Enterprise Income Tax	–	2,087
Deferred income tax, net (Note 17)	(38,487)	(36,051)
	(38,487)	(33,964)

Hong Kong Profits Tax, Bermuda and BVI Income Tax

No provision of Hong Kong Profits Tax, Bermuda and BVI Income Tax has been made, as the Group did not generate any assessable profits in these jurisdictions during the year (2016: Nil).

11 TAXATION (Continued)

PRC Enterprise Income Tax

PRC Enterprise Income Tax has been provided at the rate of 25% (2016: 25%) on taxable profits of the Group's PRC subsidiaries during the year.

Reconciliation between loss before taxation and tax credit is as follows:

	2017 RMB'000	2016 RMB'000
Loss before taxation	(327,892)	(635,630)
Tax calculated at PRC applicable income tax rate of 25% (2016: 25%)	(81,973)	(158,907)
Effect of different tax rates of group companies operating in other jurisdictions	886	2,171
Tax effect of income not assessable for tax purpose	(175)	(4,292)
Tax effect of expenses not deductible for tax purpose	42,775	126,454
Tax effect of withholding tax on unremitted profits	–	110
Tax effect of withholding tax on interest income	–	500
Tax credit for the year	(38,487)	(33,964)

12 LOSS PER SHARE

(a) Basic loss per share

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

	2017	2016
Net loss attributable to the equity holders of the Company (RMB'000)	(289,405)	(601,666)
Weighted average number of ordinary shares in issue for basic loss per share ('000)	1,327,333	1,327,333
Basic loss per share (RMB per share)	(0.22)	(0.45)

(b) Diluted loss per share

The computation of diluted loss per share does not include the Company's outstanding share options and the outstanding warrants because the effect were anti-dilutive. Therefore, the diluted loss per share of the Company is the same as the basic loss per share.

13 DIVIDENDS

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

14 LAND USE RIGHTS

	2017 RMB'000	2016 RMB'000
Cost:		
As at 1 January and 31 December	**165,820**	165,820
Accumulated amortisation:		
As at 1 January	**28,162**	24,846
Amortisation	**3,316**	3,316
As at 31 December	**31,478**	28,162
Net book value:		
As at 31 December	**134,342**	137,658

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

There were no any land use right was pledged to bank as securities for banking facilities granted to the Group as at 31 December 2017 (2016: RMB46,393,000).

15 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost:						
As at 1 January 2016	968,484	991,228	16,176	820	51,097	2,027,805
Additions	22,286	130,130	44	–	73	152,533
Disposals	–	(120,991)	–	–	–	(120,991)
As at 31 December 2016 and 1 January 2017	990,770	1,000,367	16,220	820	51,170	2,059,347
Additions	218,210	63,907	115	–	4,315	286,547
Transfer	–	55,485	–	–	(55,485)	–
Disposals	–	(154,777)	(700)	–	–	(155,477)
As at 31 December 2017	**1,208,980**	**964,982**	**15,635**	**820**	**–**	**2,190,417**
Accumulated depreciation and impairment:						
As at 1 January 2016	351,338	445,567	12,413	492	–	809,810
Depreciation charge	52,185	67,562	1,073	164	–	120,984
Impairment	135,180	106,337	–	–	–	241,517
Disposals	–	(42,600)	–	–	–	(42,600)
As at 31 December 2016 and 1 January 2017	538,703	576,866	13,486	656	–	1,129,711
Depreciation charge	15,951	59,895	510	164	–	76,520
Impairment	61,448	33,087	–	–	–	94,535
Disposals	–	(53,863)	(615)	–	–	(54,478)
As at 31 December 2017	**616,102**	**615,985**	**13,381**	**820**	**–**	**1,246,288**
Net book value:						
As at 31 December 2017	**592,878**	**348,997**	**2,254**	**–**	**–**	**944,129**
As at 31 December 2016	452,067	423,501	2,734	164	51,170	929,636

(i) The land and buildings with carrying values of approximately RMB7,467,000 (2016: RMB89,811,000) were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2017.

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

(ii) Impairment loss recognised in the current year:

As the poor result of the Group's jelly products segments (the "jelly segments") during the year ended 31 December 2017, the Group considered it was an indication that the property, plant and equipment of the jelly segments may be impaired. The Group carried out an impairment testing on the property, plant and equipment of the jelly segments. The recoverable amount of the property, plant and equipment for the jelly segments has been determined based on a value-in-use calculation. The value-in-use of property, plant and equipment were estimated based on their respective discounting future cash flows to be generated from the continuing use of these assets. The value-in-use calculation using cash flow projections according to financial budgets covering an five-year period approved by the management and with pre-tax discount rates of 17.09%. The total estimated undiscounted future cash flows to be generated from continuing use of these assets during the five-year-period is approximately RMB637,404,000. Cash flows beyond five-year period have been extrapolated using a steady 3% terminal growth rate.

The other key assumptions used in the estimation of value-in-use of the property, plant and equipment are as follows:

- The availability of finance will not be a constraint on the forecast growth of the jelly segments in accordance with the business plan;
- Interest rates and exchange rates in the localities for the operation of the jelly segments will not differ materially from those presently prevailing;
- Save for those proposed changes on taxation policies announced by the Tax Bureau, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the jelly segments.
- The jelly segments shall have uninterrupted rights to operate its existing business during the unexpired term of its authorized enterprise operating period;
- The profit forecasts of the jelly segments revealed to us by the Company have been compiled based on fair and reasonable assumptions that can be materialized by the jelly segments;
- The production facilities, systems and the technology utilized by the units in carrying out its existing businesses do not infringe any relevant regulations and law;
- There will be no major changes in existing political, legal, economic conditions in which jelly segments is being operated.

The values assigned to key assumptions are consistent with external information sources.

As at 31 December 2017, the value-in-use amount of the property, plant and equipment of jelly segment was approximately RMB1,173,000,000 and impairment loss of approximately RMB94,535,000 has been recognised during the year ended 31 December 2017.

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

(iii) Impairment loss recognised in the prior year:

As the poor result of the Group's individual jelly products segments (the "jelly segments") and beverages products segment (the "beverages segment") during the year ended 31 December 2016, the Group considered it was an indication that the property, plant and equipment of the jelly segments and beverages segment may be impaired. The Group carried out an impairment testing on the property, plant and equipment which are belong to individual of the jelly segments and beverages segment. The recoverable amount of the property, plant and equipment for the jelly segments and beverages segment has been determined based on a value-in-use calculation of individual segment. The value-in-use of property, plant and equipment were estimated based on their respective discounting future cash flows to be generated from the continuing use of these assets. The value-in-use calculation using cash flow projections according to financial budgets covering an five-year period approved by the management and with pre-tax discount rates of 16.48%. The total estimated undiscounted future cash flows to be generated from continuing use of these assets during the five-year-period is approximately RMB729,406,000 for the jelly segments and is approximately RMB44,408,000 for the beverages segment. Cash flows beyond five-year period have been extrapolated using a steady 3% terminal growth rate.

The other key assumptions used in the estimation of value-in-use of the property, plant and equipment are as follows:

- there will be no major change in the existing political, legal and economic conditions in which the jelly segments and beverages segment is being operated;

- save for those proposed changes on taxation policies announced by the Tax Bureau, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the jelly segments and beverages segment;

- the interest rates and exchange rates will not differ materially from those presently prevailing;

- the availability of finance will not be a constraint on the forecast growth of the jelly segments and beverages segment operations in accordance with the business plans;

- the jelly segments and beverages segment shall have uninterrupted rights to operate its existing business during the unexpired terms of its authorized enterprise operating period;

- the unaudited financial statements of the jelly segments and beverages segment as supplied to us have been prepared in a manner truly and accurately reflected the financial position of the jelly segments and beverages segment as at the respective balance sheet dates;

- the profit forecasts of the jelly segments and beverages segment revealed to us by the Company have been compiled based on fair and reasonable assumptions that can be materialized by the jelly segments and beverages segment;

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

(iii) Impairment loss recognised in the prior year: (Continued)

- the production facilities, systems and the technology utilized by the jelly segments and beverages segment in carrying out its existing businesses do not infringe any relevant regulations and law;
- the jelly segments and beverages segment has obtained all necessary permits and approvals to carry out its business and its ancillary services and shall be entitled to renew those permits and approvals upon their expiry subject to no legal impediment and costs substantial amount;
- except those stated in the financial statement, the jelly segments and beverages segment is free and clear of any off balance sheet lien, charge, option, pre-emption rights or other encumbrances or rights whatsoever;
- the jelly segments and beverages segment shall secure and retain competent management, key personnel, marketing and technical staff to carry out and support their business operations; and
- the estimated value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the ordinary the enterprise value of the jelly segments and beverages segment.

The values assigned to key assumptions are consistent with external information sources.

As at 31 December 2016, the value-in-use amount of the property, plant and equipment of jelly segments was approximately RMB1,169,409,000 and impairment loss of approximately RMB196,381,000 has been recognized for jelly segments during the year ended 31 December 2016. For beverages segment, the value-in-use amount of the property, plant and equipment was approximately RMB164,177,000, and impairment loss of approximately RMB45,136,000 has been recognized for beverages segment during the year ended 31 December 2016.

16 DEPOSITS FOR PROPERTY, PLANT AND EQUIPMENT

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

17 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 tax relate to the same fiscal authority.

The following are the major deferred tax assets/liabilities recognised and movement thereon during the current and prior reporting years:

Deferred income tax assets	Accrued sales rebates	Tax losses	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2016	12,341	43,500	55,841
(Charged)/credited to the consolidated statement of profit or loss and other comprehensive income (Note 11)	(890)	37,052	36,162
As at 31 December 2016 and 1 January 2017	**11,451**	**80,552**	**92,003**
Credited to the consolidated statement of profit or loss and other comprehensive income (Note 11)	**204**	**38,283**	**38,487**
As at 31 December 2017	**11,655**	**118,835**	**130,490**

Deferred income tax liabilities	Withholding income tax	Total
	RMB'000	RMB'000
As at 1 January 2016	(31,429)	(31,429)
Charged to the consolidated statement of profit or loss and other comprehensive income (Note 11)	(111)	(111)
As at 31 December 2016 and 1 January 2017	**(31,540)**	**(31,540)**
Charged to the consolidated statement of profit or loss and other comprehensive income (Note 11)	**–**	**–**
As at 31 December 2017	**(31,540)**	**(31,540)**

As at 31 December 2017, deferred income tax assets are recognised for accrued sales rebates and tax losses, 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% (2016: 25%).

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

17 DEFERRED INCOME TAX (Continued)

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

As at 31 December 2017, there are temporary differences relating to the retained earnings of the Group's PRC subsidiaries amounted to approximately RMB804,002,000 (2016: RMB959,088,000). Deferred income tax liabilities of approximately RMB51,143,000 (2016: RMB60,158,000), 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.

18 INVENTORIES

	2017	2016
	RMB'000	RMB'000
Raw materials	**43,220**	56,283
Finished goods	**20,756**	51,773
Less: Write-off of inventories	**–**	(33,891)
	63,976	74,165

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB552,667,000 (2016: RMB480,049,000).

For the year ended 31 December 2016, due to change in food additives disclosure requirement in the PRC and certain goods of the Group being returned by distributors, the directors of the Company considered to make a one-off inventories write-off of RMB33,891,000.

19 TRADE RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Trade receivables	**307,019**	261,778
Less: Impairment	**(1,073)**	–
	305,946	261,778

19 TRADE RECEIVABLES (Continued)

For the year ended 31 December 2017, the Group's revenue are generally on credit term of 90 days (2016: 30 to 90 days). As at 31 December 2017, the ageing analysis of trade receivables, based on invoice date and not of impairment, is as follows:

	2017	2016
	RMB'000	RMB'000
Less than 30 days	**136,761**	106,381
31 days – 90 days	**148,134**	148,936
Over 90 days	**21,051**	6,461
	305,946	261,778

As at 31 December 2017, trade receivables of approximately RMB21,051,000 (2016: RMB6,461,000) 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:

	2017	2016
	RMB'000	RMB'000
Past due by less than 3 months but not impaired	**21,051**	6,461

During the year ended 31 December 2017, trade receivables of approximately RMB1,073,000 were impaired (2016: Nil). The movement in the provision of impairment of trade receivables are as follows:

	2017	2016
	RMB'000	RMB'000
At the beginning of year	**–**	–
Impairment losses recognized	**1,073**	–
At the end of year	**1,073**	–

Included in the above provision for impairment of trade receivables of RMB1,073,000 (2016: RMB Nil). The individually impaired trade receivable relate to consumers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The carrying amounts of trade receivables approximate their fair values.

20 PREPAYMENTS AND OTHER RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Prepayments	**66,756**	63,722
Other receivables	**65,032**	64,842
	131,788	128,564

As at 31 December 2017, prepayments mainly comprised of deposit paid for purchase of raw material of approximately RMB64,307,000 (2016: RMB61,672,000).

As at 31 December 2017, other receivables mainly comprised of value-added tax receivables of approximately RMB58,183,000 (2016: RMB64,365,000).

21 LOAN RECEIVABLE

On 19 June 2015, a wholly-owned subsidiary of the Group (the "Lender") entered into an entrusted loan agreement with a PRC bank, as the lending agent ("Lending Bank"), and an independent third party (the "Borrower"), pursuant to which the Lender, agreed to grant the entrusted loan in the principal amount of RMB250,000,000 (the "Entrusted Loan") to the Borrower (the "Entrusted Loan Agreement"). The Entrusted Loan is secured by (i) a personal guarantee of RMB250,000,000 provided by a controlling shareholder of the Borrower; (ii) a corporate guarantee of RMB228,783,000 given by a fellow subsidiary of the Borrower; and (iii) certain land parcels in the PRC valued at RMB30,310,000, as security to the obligations of the Borrower under the Entrusted Loan Agreement. The Entrusted Loan has a term of one year and bearing interest at 0.5% per month.

As of 31 December 2017, the Borrower has drawn up an aggregate amount of RMB220,000,000 (31 December 2016: RMB220,000,000) of the Entrusted Loan with interests accrued in the amount of approximately RMB1,100,000 for the period from 19 May 2016 to 18 June 2016 (the "Outstanding Amounts"). The Entrusted Loan was matured and shall be repaid by the Borrower on 18 June 2016. However, up to the date of these financial statements, the Borrower has not repaid the Outstanding Amounts.

The Lending Bank had initiated a legal proceeding against the Borrower and guarantors on 10 March 2017 (Note 38). Based on the best estimate taking into account all the relevant information currently available to the Company, the Company anticipates that the recoverable amount for the Entrusted Loan would be approximately RMB128,500,000, and an impairment of approximately RMB92,600,000 has been provided in the consolidated financial statements of the Group for the year ended 31 December 2016.

In order to estimate a reliable recoverable amount of the Entrusted Loan as at 31 December 2017, the directors have considered the market value of the pledged land and buildings. Although the Entrusted Loan was also secured by the personal and corporate guarantees, the directors at this stage are unable to ascertain whether the guarantors have the ability to fully repay the Outstanding Amounts. Hence, the impairment was provided in the consolidated financial statement for the year ended 31 December 2016. After the above review of the Entrusted Loan, the directors consider that the amount of the impairment provision was sufficient. No further impairment was provided in the consolidated financial statement for the year ended 31 December 2017.

22 PLEDGED BANK DEPOSITS

As at 31 December 2017, pledged bank deposits of the Group of approximately RMB43,300,000 (2016: RMB50,756,000) were with initial terms of over three months and pledged to banks as security for bills payable (Note 24).

The weighted average effective interest rate of these bank deposits as at 31 December 2017 was 1.24% per annum (2016: 1.30% per annum).

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

23 CASH AND CASH EQUIVALENTS

	2017	2016
	RMB'000	RMB'000
Cash and bank balances	**72,833**	227,303

23 CASH AND CASH EQUIVALENTS (Continued)

(a) The Group's cash and cash equivalents as at 31 December 2017 and 2016 are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
RMB	**71,563**	220,258
HKD	**1,267**	2,977
USD	**3**	4,068
	72,833	227,303

Cash and cash equivalents of the Group of approximately RMB71,563,000 (2016: RMB220,258,000) 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.

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flow were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

For the year ended 31 December 2017

	Bank borrowings RMB'000 (Note 25)	Loan from a director RMB'000 (Note 24)	Total RMB'000
As at 1 January 2017	751,065	–	751,065
Changes from financing activities:			
Proceeds from bank borrowings	715,800	–	715,800
Repayment of bank borrowings	(683,626)	–	(683,626)
Proceeds from loan from a director	–	42,660	42,660
Repayment of loan from a director	–	(20,000)	(20,000)
Total changes from financing cash flows during the year	32,174	22,660	54,834
As at 31 December 2017	**783,239**	**22,660**	**805,899**

24 TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	**80,026**	74,202
Bills payable (Note (i))	**138,000**	165,840
Accrued sales rebates	**15,781**	15,014
Other accrued expenses	**11,016**	12,142
Directors' fees and emoluments payable	**8,836**	6,265
Loan from a director (ii)	**22,660**	–
Other payables and sundry creditors	**55,110**	37,519
	331,429	310,982

Note:

(i) Bills payable amounting to approximately RMB93,000,000 (2016: RMB165,840,000) were secured by pledged bank deposits of approximately RMB43,300,000 (2016: RMB50,756,000).

The bills payable were with maturity period within 1 year.

(ii) On 1 March 2017, the Company entered in to a loan agreement with Mr. Zheng Yu Long, an executive director of the Company, for a loan facility of approximately RMB40,994,000. The amount is unsecured, repayable on 31 December 2017 and bears fixed interest rate at 2% per annum.

The loan agreement with Mr. Zheng Yu Long was renewed on 29 December 2017 for a loan facility of approximately RMB40,000,000, the Company has drawn RMB22,660,000 as at 31 December 2017. The amount is unsecured, repayable on 31 December 2018 and bears fixed interest rate at 2% per annum.

The credit periods granted by suppliers generally range from 30 to 60 days. As at 31 December 2017, the ageing analysis of trade payables based on invoice date is as follows:

	2017 RMB'000	2016 RMB'000
Less than 30 days	**73,513**	66,972
31 days – 90 days	**6,246**	7,230
Over 90 days	**267**	–
	80,026	74,202

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

25 BANK BORROWINGS

	2017 RMB'000	2016 RMB'000
Secured bank borrowings	**483,239**	385,055
Unsecured bank borrowings	**300,000**	366,010
Total bank borrowings	**783,239**	751,065
Carrying amount of bank borrowings wholly repayable:		
On demand or within 1 year	**583,239**	551,065
More than 1 year, but not exceeding 2 years	**200,000**	–
More than 2 years but not more than 5 years	**–**	200,000
	783,239	751,065
Less: amounts show under current liabilities	**(583,239)**	(551,065)
Amount classified as non-current liabilities	**200,000**	200,000

The carrying amounts of the bank borrowings are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
RMB	**780,450**	695,090
HKD	**2,789**	3,555
USD	**–**	52,420
	783,239	751,065

As at 31 December 2017, the bank borrowing of HKD3,350,000 (equivalent to approximately RMB2,789,000) (2016: RMB3,555,000) was secured by the land and buildings of approximately RMB7,467,000 (2016: RMB7,979,000) and charged at a floating interest rate of HIBOR + 2.25% which was re-pricing every month

As at 31 December 2017, the short-term secured bank loans of approximately RMB142,850,000 (2016: RMB79,000,000) were secured by corporate guarantee by inter-group companies. The banks borrowings were repayable within 12 months and charged at floating interest rates of 4.92%to 5.05% (2016: LIBOR + 0.57% to 0.70%) which was repricing every 12 months.

As at 31 December 2017, the short-term secured bank loans of approximately RMB60,000,000 were secured by corporate guarantee by inter-group companies. The banks loans borrowings repayable within 12 months and charged at floating interest rate of 5.71%, which was repricing every 3 months.

25 BANK BORROWINGS (Continued)

As at 31 December 2017, the short-term secured bank borrowings of approximately RMB198,000,000 (2016: RMB33,000,000) were secured by corporate guarantee by inter-group companies and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company. The bank borrowings were repayable within 12 months and charged at floating interest rates of 5.22%to 5.44% (2016: LPR+0.92%) which was repricing every 3 months.

As at 31 December 2017, the short-term secured bank borrowing of approximately RMB9,800,000 was secured by Mr. Zheng Yu Huan, director of the Company. The bank borrowing was repayable within 12 months and charged at fixed interest rate of 4.35% per annum.

As at 31 December 2017, the short-term secured bank borrowing of approximately RMB9,800,000 was secured by a key management personnel of the Company. The bank borrowing was repayable within 12 months and charged at fixed interest rate of 4.35% per annum.

As at 31 December 2017, the short-term secured bank borrowings of approximately RMB60,000,000 were secured by corporate guarantee by inter-group companies and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company, and the wife of Mr. Zheng Yu Shuang. The bank borrowings were repayable within 12 months and charged at fixed interest rates of 5.66% per annum.

As at 31 December 2017, short-term unsecured bank borrowings of RMB100,000,000 were repayable within 12 months and charged at fixed interest rate of 5.22% to 5.74% per annum.

As at 31 December 2017, long-term unsecured bank borrowings of RMB200,000,000 were repayable within 2 years and charged at fixed interest rate of 5.70% per annum.

26 SHARE CAPITAL AND SHARE PREMIUM

Authorised share capital

As at 31 December 2017, the total authorised share capital of the Company was US$250,000,000 (2016: US$250,000,000).

Issued share capital

	Number of Shares	Amount		
	Issued share capital	Share capital	Share premium	Total share capital and share premium
	'000	RMB'000	RMB'000	RMB'000
The Company				
As at 1 January 2016	**1,128,977**	**405,030**	**563,056**	**968,086**
Issue of new shares *(Note)*	**200,000**	**65,000**	**52,600**	**117,600**
As at 31 December 2016, 1 January 2017 and 31 December 2017	**1,328,977**	**470,030**	**615,656**	**1,085,686**

Note: Pursuant to a placing agreement entered into by the Company and Guoyuan Capital (Hong Kong) Limited, as the placing agent, on 22 December 2015, the Company placed an aggregate of 200,000,000 new shares of the Company through the placing agent to not fewer than six placees at HK$0.70 per share (the "Placing"). The net proceeds from the Placing of RMB115,248,000 was received by the Company on 30 December 2015 and the issuance of new shares to the placees was completed on 4 January 2016 (the "Completion Date"). The amount of receipt in advance as at 31 December 2015 was credited to the Company's share premium account on the Completion Date.

27 DIRECTORS' AND CHIEF EXECUTIVES EMOLUMENTS

The emolument of directors and chief executive for the year ended 31 December 2017, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is set out below:

Name of directors	Fee	Salaries	Other benefits	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Zheng Yu Huan	–	800	16	–	816
Mr. Zheng Yu Shuang (Note (i))	–	800	–	–	800
Mr. Zheng Yu Long	–	800	16	–	816
Non-executive directors					
Mr. Li Hung Kong	210	–	–	–	210
Mr. Ren Yunan (Note (ii))	210	–	–	–	210
Independent non-executive directors					
Mr. Li Zhi Hai	210	–	–	–	210
Ms. Sun Kam Ching	210	–	–	–	210
Mr. Chung Yau Tong	210	–	–	–	210
	1,050	2,400	32	–	3,482

27 DIRECTORS' AND CHIEF EXECUTIVES EMOLUMENTS (Continued)

The emolument of directors and chief executive for the year ended 31 December 2016, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, 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 Huan	–	800	15	–	815
Mr. Zheng Yu Shuang (Note (i))	–	800	–	–	800
Mr. Zheng Yu Long	–	800	15	–	815
Non-executive directors					
Mr. Li Hung Kong	205	–	–	–	205
Mr. Ren Yunan (Note (ii))	205	–	–	–	205
Independent non-executive directors					
Mr. Li Zhi Hai	205	–	–	–	205
Ms. Sun Kam Ching	205	–	–	–	205
Mr. Chung Yau Tong	205	–	–	–	205
	1,025	2,400	30	–	3,455

Notes:

(i) Mr. Zheng Yu Shuang is the Chief Executive Officer of the Group.

(ii) 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 is the beneficial owner of a subscriber who holds 100,000,000 unlisted warrants.

During the years ended 31 December 2017 and 2016, none of the directors and chief executive of the Company waived or agreed to waive any emoluments.

During the years ended 31 December 2017 and 2016, no emoluments have been paid to the directors and chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

28 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year ended 31 December 2017 included 3 (2016: 2) directors, whose emoluments are set out in Note 27. Details of the emoluments payable to the remaining 2 (2016: 3) highest paid employees, who are neither a director nor chief executive of the Company, during the year are as follows:

	2017	2016
	RMB'000	RMB'000
Salaries, share options and bonuses	**4,150**	4,970
Employer's contribution to defined contribution plans	**55**	21
	4,205	4,991

The emoluments of the remaining 2 (2016: 3) highest paid employees fell within the following bands:

	Number of individuals	
	2017	2016
Nil – HK$1,000,000 (equivalent to Nil – RMB900,000)	**1**	–
HK$1,000,001 – HK$2,000,000 (equivalent to RMB900,001 – RMB1,800,000)	**1**	3

During the years ended 31 December 2017 and 2016, none of the five highest paid employees waived or agreed to waive any emoluments.

During the years ended 31 December 2017 and 2016, no emoluments have been paid to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

29 EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

In addition, the Group's subsidiaries in the PRC participate in a defined contribution retirement scheme organised by the PRC municipal government. These subsidiaries are required to make contributions to the scheme.

Save as disclosed above, the Group has no other obligations to make payments in respect of retirement benefits of the employees during the year.

For the year ended 31 December 2017, the Group's retirement plan contributions amounted to approximately RMB13,154,000 (2016: RMB13,198,000).

30 SHARE BASED PAYMENTS

The Company had the following outstanding share options granted to certain employees of the Group:

Share options granted on 30 March 2012 ("Share option 1")

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%

Note:

The Share option 1 was expired on 30 March 2017, the share option not exercised was lapsed on the same date. The amount previously recognized in share option reserve was reversed during the year ended 31 December 2017.

Share options granted on 30 September 2014 ("Share option 2")

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%

30 SHARE BASED PAYMENTS (Continued)

Share options granted on 10 July 2015 ("Share option 3")

On 10 July 2015, 30,000,000 share options were granted to certain employees of the Group with an exercisable period from 13 July 2015 to 12 July 2020 at an exercise price of HK$0.89 per Share. All of these share options were immediately vested. The estimated fair value of these share options was approximately RMB5,928,000, 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:	10 July 2015
Exercise price:	HK$0.89 per Share
Expected life:	2.68 years
Risk-free rate:	0.97%
Expected volatility:	53.18%
Expected dividend yield:	1.55%

Share options granted on 14 November 2016 ("Share option 4")

On 14 November 2016, 30,000,000 share options were granted to certain employees of the Group with an exercisable period from 15 November 2016 to 14 November 2021 at an exercise price of HK$0.47 per Share. All of these share options were immediately vested. The estimated fair value of these share options was approximately RMB5,328,000, based on the Trinomial Option Pricing 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:	14 November 2016
Exercise price:	HK$0.47 per Share
Expected life:	5 years
Risk-free rate:	1.16%
Expected volatility:	52.46%
Expected dividend yield:	0%

30 SHARE BASED PAYMENTS (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 2017.

Movement of the share options during the years ended 31 December 2017 and 2016 are as follows:

						Number of ordinary shares subject to share options granted under the Share Option Scheme				
Grantee	Date of grant		Vesting period	Exercisable period	Exercise price per share HK$	Outstanding as at 1 January 2017	Granted during the year ended 31 December 2017	Exercised during the year ended 31 December 2017	Lapsed during the year ended 31 December 2017	Outstanding as at 31 December 2017
Employee	30 March 2012	Share Option 1	Immediately	31 March 2014 to 30 March 2017	**2.68**	**5,000,000**	**–**	**–**	**(5,000,000)**	**–**
Employee	30 March 2012	Share Option 1	Immediately	31 March 2015 to 30 March 2017	**2.68**	**3,000,000**	**–**	**–**	**(3,000,000)**	**–**
Employee	30 September 2014	Share Option 2	Immediately	1 October 2014 to 30 September 2019	**1.19**	**33,000,000**	**–**	**–**	**–**	**33,000,000**
Employee	10 July 2015	Share Option 3	Immediately	13 July 2015 to 12 July 2020	**0.89**	**30,000,000**	**–**	**–**	**–**	**30,000,000**
Employee	14 November 2016	Share Option 4	Immediately	15 November 2016 to 14 November 2021	**0.47**	**30,000,000**	**–**	**–**	**–**	**30,000,000**
				Total		**101,000,000**	**–**	**–**	**(8,000,000)**	**93,000,000**
				Exercisable at the end of the year						**93,000,000**
				Weighted average exercise price (HK$)		**1.01**	**N/A**	**N/A**	**N/A**	**0.86**

						Number of ordinary shares subject to share options granted under the Share Option Scheme				
Grantee	Date of grant		Vesting period	Exercisable period	Exercise price per share HK$	Outstanding as at 1 January 2016	Granted during the year ended 31 December 2016	Exercised during the year ended 31 December 2016	Lapsed during the year ended 31 December 2016	Outstanding as at 31 December 2016
Employee	30 March 2012	Share Option 1	Immediately	31 March 2014 to 30 March 2017	2.68	5,000,000	–	–	–	5,000,000
Employee	30 March 2012	Share Option 1	Immediately	31 March 2015 to 30 March 2017	2.68	3,000,000	–	–	–	3,000,000
Employee	30 September 2014	Share Option 2	Immediately	1 October 2014 to 30 September 2019	1.19	33,000,000	–	–	–	33,000,000
Employee	10 July 2015	Share Option 3	Immediately	13 July 2015 to 12 July 2020	0.89	30,000,000	–	–	–	30,000,000
Employee	14 November 2016	Share Option 4	Immediately	15 November 2016 to 14 November 2021	0.47	–	30,000,000	–	–	30,000,000
				Total		71,000,000	30,000,000	–	–	101,000,000
				Exercisable at the end of the year						101,000,000
				Weighted average exercise price (HK$)		1.23	0.47	N/A	N/A	1.01

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.

Details of share option scheme is set out at "Share option" under the "Directors' Report".

31 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**134,206**	134,206
Current assets		
Amounts due from subsidiaries	**441,669**	457,451
Prepayments and other receivables	**281**	294
Cash and cash equivalents	**1,180**	12,651
	443,130	470,396
Total assets	**577,336**	604,602
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**470,030**	470,030
Share premium	**615,656**	615,656
Reserves	**(549,776)**	(542,144)
Total equity	**535,910**	543,542
LIABILITIES		
Current liabilities		
Amount due to a subsidiary	**5,008**	–
Other payables	**36,418**	8,640
Bank borrowings	**–**	52,420
	41,426	61,060
Total liabilities	**41,426**	61,060
Total equity and liabilities	**577,336**	604,602
Net current assets	**401,704**	409,336
Total assets less current liabilities	**535,910**	543,542

The Company's statement of financial position was approved and authorised by the board of directors on 29 March 2018.

Zheng Yu Huan	**Zheng Yu Shuang**
Director	*Director*

32 PARTICULARS OF SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2017:

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%
晉江蠟筆小新創業投資有限公司 Jinjiang Labixiaoxin Venture Capital Investment Co., Ltd.	PRC#	Investment and provision of management and consultancy services	100%

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

33 RESERVES

(a) Merger reserve

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

(b) Statutory reserves

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

(c) Share option reserves

The reserve represents the fair value of the actual or estimated number of unexercised share options grants to eligible persons, including any full-time and part-time employee, director, consultant or advisor of the Company and its subsidiaries or any associate of the Company, recognised in accordance with the share option scheme which are set out in the section headed "Share Option Schemes" in Report of the Directors of the annual report.

34 RESERVES OF THE COMPANY

	Other reserve	Share option reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2016	858	19,993	(24,714)	(3,863)
Loss for the year	–	–	(545,740)	(545,740)
Employee share-based payments	–	7,459	–	7,459
Balance as at 31 December 2016 and 1 January 2017	858	27,452	(570,454)	(542,144)
Loss for the year	–	–	(7,632)	(7,632)
Lapse of share option	–	(9,538)	9,538	–
Balance as at 31 December 2017	**858**	**17,914**	**(568,548)**	**(549,776)**

35 COMMITMENTS

Capital commitments

As at 31 December 2017, the Group had the following capital commitments in respect of land use right and property, plant and equipment:

	2017 RMB'000	2016 RMB'000
Authorised but not contracted for		
– Land use right	**50,000**	50,000
Contracted but not provided for		
– Property, plant and equipment	**–**	133,050
	50,000	183,050

36 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:

(a) Key management personnel compensation

	2017 RMB'000	2016 RMB'000
Directors' fee	**1,050**	1,025
Salaries and other employee benefits	**4,987**	6,292
	6,037	7,317

(b) Loan from a director

On 1 March 2017, the Company entered in to a loan agreement with Mr. Zheng Yu Long, an executive director of the Company, for a loan facility of approximately RMB40,994,000. The amount is unsecured, repayable on 31 December 2017 and bears fixed interest rate at 2% per annum.

The loan agreement with Mr. Zheng Yu Long was renewed on 29 December 2017 for a loan facility of approximately RMB40,000,000, the Company has drawn RMB22,660,000 as at 31 December 2017. The amount is unsecured, repayable on 31 December 2018 and bears fixed interest rate at 2% per annum.

(c) Personal guarantee provided by director

Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors, have provided personal guarantee to bank borrowings of the Group of approximately RMB277,600,000. The bank borrowings are repayable within one year.

37 CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2017 and 2016.

38 EVENTS AFTER THE REPORTING PERIOD

There were no significant events that have occurred subsequent to the end of the reporting period.

39 AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2018.