KONDE 康大

中國康大食品有限公司

CHINA KANGDA FOOD COMPANY LIMITED

(incorporated in Bermuda with limited liability)

Singapore stock code : P74
Hong Kong stock code : 834

Annual Report 2017

Lawn to Table Eating

The Whole Industry Chain

Provide Safe and Healthy Lifestyle

Corporate Profile

Established in 1992, China Kangda Food Company Limited (the "Company") is a diversified food manufacturing and processing group based in the People's Republic of China (the "PRC") and is primarily engaged in the production, processing, sale and distribution of:

a) chilled and frozen rabbit meat;

b) chilled and frozen chicken meat;

c) processed foods which include a wide range of food products such as instant soup, curry food, chicken-based cooked products, roasted rabbit food, meatballs, de-oxygenated consumer packed chestnuts and seafood; and

d) other products which mainly include pet food, dehydrated vegetables, poultry, rabbit organs, fruits, dried chili, pig liver, seasoning and high value-added healthcare products.

The Company's chilled and frozen rabbit meat is mainly exported to European Union (the "EU"). Besides selling products under its own brand names of "康大", "嘉府", "U味", and "KONDA", the Company also acts as an Original Equipment Manufacture ("OEM") manufacturer of a variety of processed foods including meatballs, seafood, chicken-based cooked products, chestnuts, instant soups and curry products and etc.

The Company currently distributes its wide range of products in 26 provinces and over 30 major cities in the PRC and exports to more than 20 countries and cities including Japan, the United Arab Emirates and certain countries in the EU.

The Company is one of the major companies in the PRC authorised to supply rabbit meat to the EU and one of the largest PRC exporters of rabbit meat. The Company is also the first PRC company to be granted the certification for breeding progeny rabbit in the PRC. The Company has further strengthened its foothold in this segment through stable expansion strategies.

Besides, the Company is actively exploring suitable opportunities to develop business in the retail healthcare and/or pharmaceutical businesses in order to supplement and accelerate the development of its existing sales channels for the Group's brand new high value-added healthcare products. The Company planned and started to open or acquire pharmacies in developed cities in the PRC.

For more information, please log on to www.kangdafood.com

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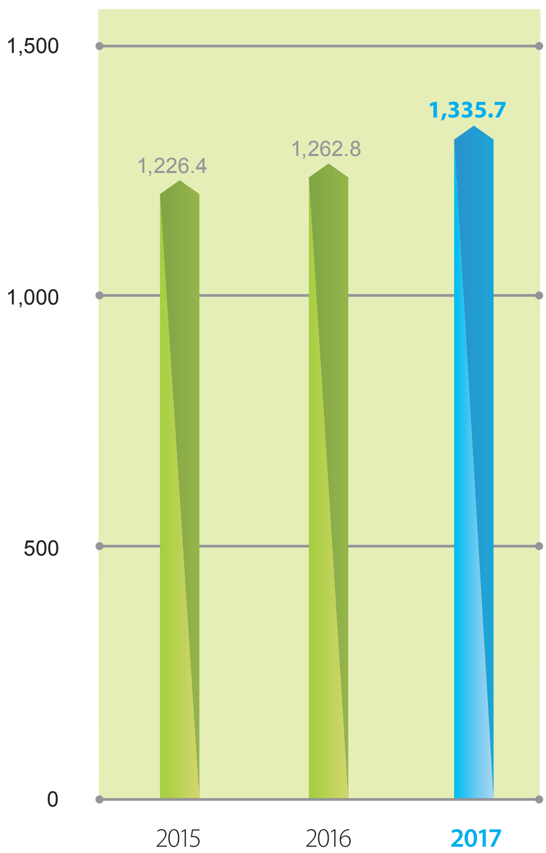
Financial Highlights

	FY2017 RMB'million	FY2016 *RMB'million*	FY2015 *RMB'million*
Revenue	**1,335.7**	1,262.8	1,226.4
Gross Profit	**110.2**	101.6	122.8
Net (Loss)/Profit Attributable to Owners of the Company	**(15.8)**	6.3	(28.1)
(Loss)/Earnings per Share – Basic (RMB cents)	**(3.7)**	1.5	(6.5)
Net Asset Value per Share – Basic (RMB cents)	**153.9**	150.2	148.8

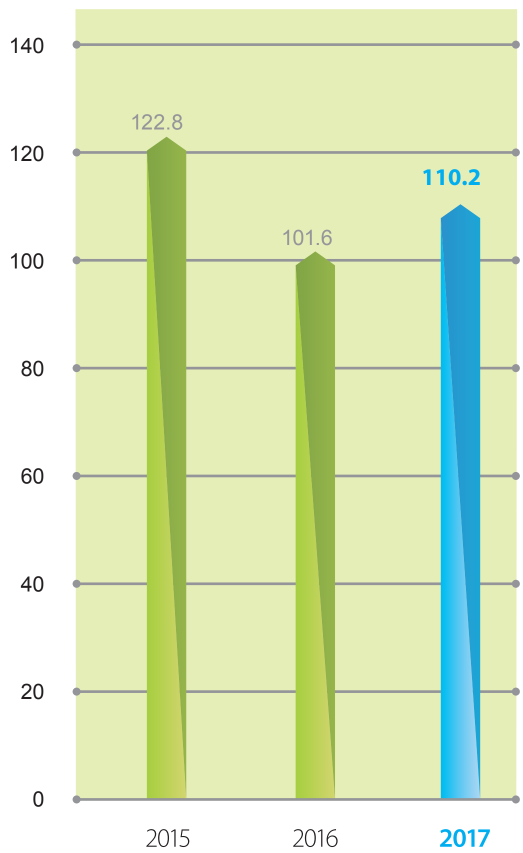
Total Revenue increased: 5.8%

RMB'million



Gross profit increased: 8.5%

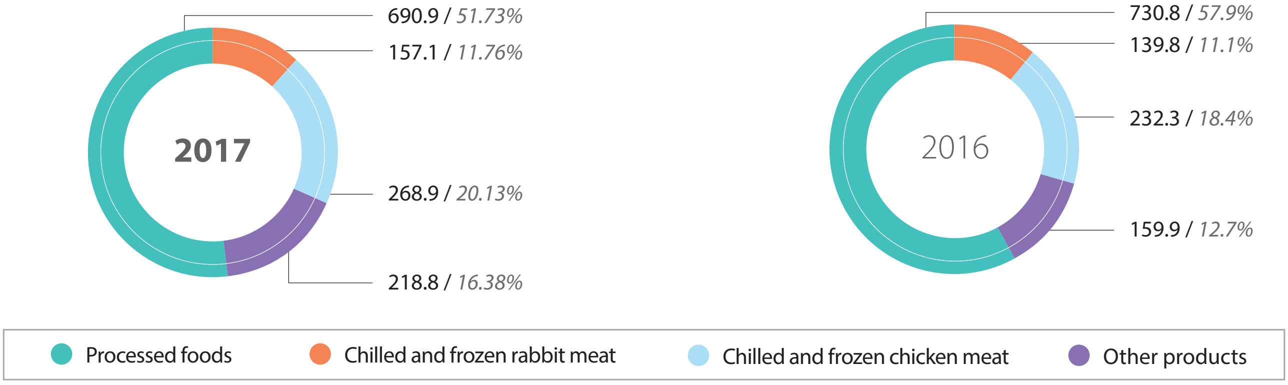
RMB'million



Financial Highlights

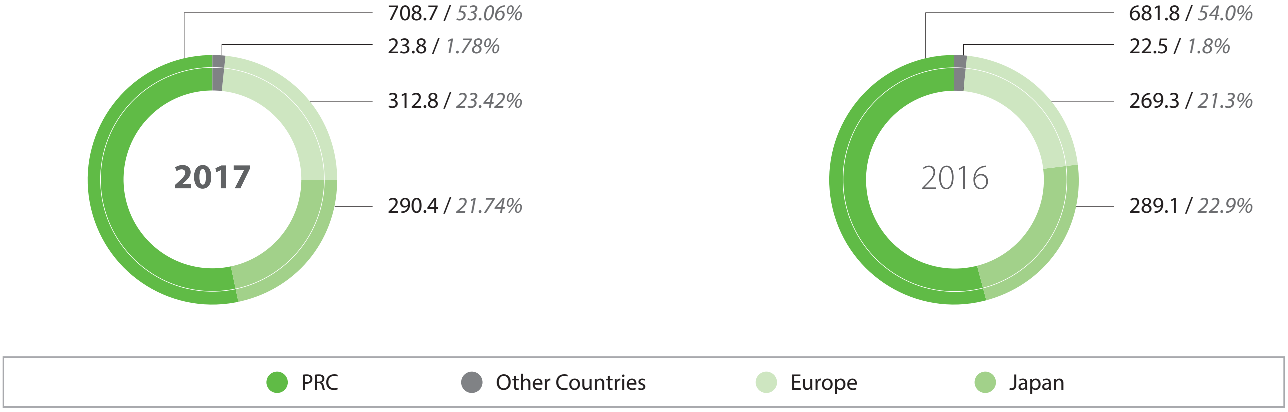
Revenue by Products

RMB'million



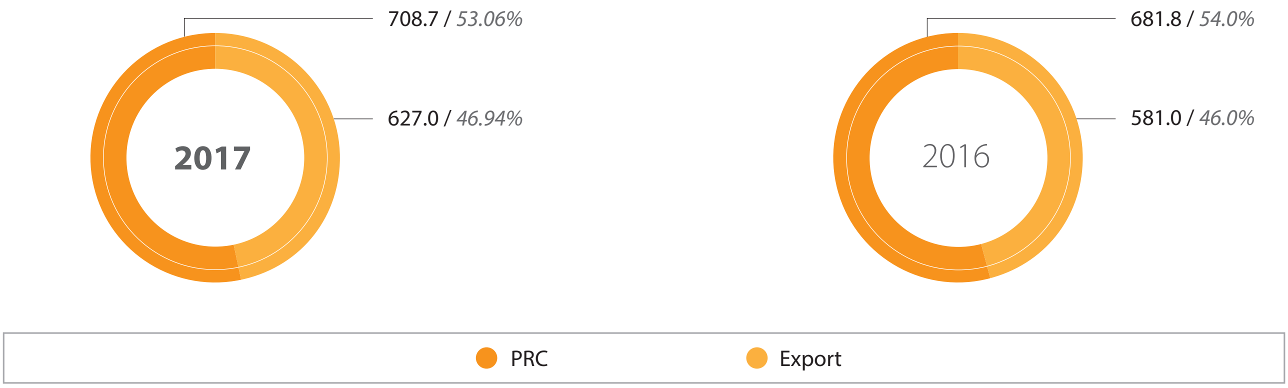
Revenue by Geographical Markets

RMB'million



Revenue by Region

RMB'million



Chairman's Statement

Dear Shareholders

On behalf of the Board of Directors (the "Board") of the Company, I am pleased to present the audited annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017.

During 2017 ("FY2017"), the Group recorded a loss attributable to owners of the Group amounted to RMB15.8 million as a result of the the increase of the mortality rate of the chicken resulting from the bad weather during the year and the increase in administrative cost mainly arose from the higher professional fees and the staff costs of the senior management as compared to a profit of RMB6.3 million recorded during 2016 ("FY2016").

During the past years, many incidents happened in the agriculture and food industry in the PRC. In view of the uncertainties and continue decrease of the market prices, the Group has implemented a prudent approach in assessing its production plan with the actual market conditions. The Group recorded sales revenue of approximately RMB1,335.7 million in 2017, representing an increase of RMB72.9 million or 5.8% from approximately RMB1,262.8 million in 2016.

Due to the recovery of demand of rabbit related products, the sales and gross profit margin of the Group's chilled and frozen rabbit meat increased by 12.4% to RMB157.1 million and increased from –2.8% to 2.7% respectively for FY2017. The growth was mainly due to the decrease in competition in the rabbit meat business environment since early 2017. Started from 2015, due to the over supply of rabbit products in the PRC market, the selling price of rabbit meat decreased and this had seriously affected the profit margin of the Group's businesses. The industry has been experiencing a long period of market consolidation which numerous smaller rabbit breeder farms in the market were closed from time to time. The decline in number of small rabbit breeder farms in 2015 and 2016 caused a decrease in supply of rabbit meat in the market in FY2017. As a result, the market demand and selling price of rabbit meat products rebounded in FY2017.

The Group is one of the 8 enterprises in the PRC which have successfully obtained the approval to export rabbit meat to overseas market. The Group has expanded in rearing "free rearing" rabbits and improved the related production and breeding facilities to comply with the European animal protection requirements. This resulted in the increase of sales of rabbit meats to overseas market and profit margin for FY2017. Through the continued expansion in the market share, the Group believes that the demand of its rabbit meat segment will improve with the recovery of rabbit meat products industry.

The processed food products were still the Group's main profit contributor in FY2017. Adhering to the highest standards in food safety and product quality is one of the Group's core values. The overall profitability under this segment had improved following the diversion of some of the Group's chilled and frozen chicken meat products into higher value processed food which could command a satisfactory return. The Group believes that its fully integrated operations, coupled with its stringent quality control standards and production safety systems, would ensure consistent and high-quality products.

The Group operates a platform that seamlessly integrates research and development, production, quality control and distribution. All of the Group's production, processing and distribution facilities have been accredited according to ISO9001, ISO14001, HACCP or other international certification standards. Based on the Group's reputation as a provider for food products, the Group believes that a relentless pursuit of its strategies will lead to a sustainable growth, enhance its global leadership role and creates long-term value for its shareholders, employees and other stakeholders.

Chairman's Statement

The Group has invested in its production for rabbit meat processes and increased its distribution networks for pet food products since 2015 and has achieved a satisfactory return and performance on these two business segments for FY2017. The Group's operation strategy in the coming years is to place further emphasis on the differentiation of products and the development of sales channels. The Group will leverage on its research and development team's capability in the product development of the high value-added processed foods, healthcare and biological products. To diversify the Group's business segments and enlarge the sales channel penetration, the Group has been developing business in the retail healthcare and/or pharmaceutical business in Beijing, Qingdao and other developed cities in the PRC. The Group planned to open or acquire retail chains/pharmacies for the Group's brand new high value-added healthcare products.

The report during the 19th National Congress of the Communist Party of China has specified to implement the "Healthy China" strategy. People's health is an important milestone for national prosperity and wealth. The "Healthy China" national strategy will expedite the development of the universal health care industry and provide people with all-round and full-cycle health care services. The pharmaceutical industry is an important component of China's national economy. At present, the pharmaceutical industry in PRC is undergoing a new medical reform and supply-side structural reform. The medical reform policies mainly focus on medical insurance and pricing system, which will exert profound influence on the pharmaceutical industry.

Also, the increasing health awareness in China will continue to drive the growth of the domestic pharmaceutical market. Reforms in the pharmaceutical industry in PRC and medical system have further deepened. The government has consecutively introduced a number of policies for medical reform, such as accelerating the implementation of the "Prescription Outflow", reducing the proportion of prescription drug in hospitals, lowering prescription drug tender prices and re-negotiation of prices in hospitals, which will bring opportunities for the development of pharmaceutical industry. The Board expects that the development of the pharmacies business is not only able to strengthen the existing business of the Group but also allow the Group to explore a new market with significant growth potential.

The conversion of the Company's listing status on the Main Board of the Singapore Exchange Securities Trading Limited from a primary to a secondary listing became effective on 23 January 2017. The conversion is expected to streamline the Company's compliance obligations, reduce its compliance–related costs and enable more efficient allocation of resources for other critical aspects of the growth and operations. The Group will also explore the opportunities to reduce of its costs by disposing non-performing business operations to enable the Group to have sufficient cash resources to meet its present and future cash flow requirement.

In the first quarter of 2018, the Company had disposed its business in Jilin as the climate and environment in Jilin are not suitable for the growth of rabbits, such that it has been difficult for the yield to increase. The business in Jilin experienced loss for the three consecutive years from 2014 to 2016. This disposal allows the Group to focus on the breeding business and sale and trading of rabbits in Shandong. Through the disposal, the Group can also redeploy its resources to working capital or investment in existing and future projects which will increase the overall profitability of the Group.

Lastly, with the change in the Company's shareholding structure as at 19 June 2017, Mr. Gao Sishi, Mr. Zhang Qi, Mr. Naoki Yamada, Mr. Chong Soo Hoon, Sean and Mr. Yu Chung Leung resigned as directors of the Company. On behalf of the Board of Directors, management and employees, I would like to convey my sincere appreciation for their invaluable contributions and dedicated service to the Company over the years.

Fang Yu
Chairman and Chief Executive Officer

Board of Directors

Executive Director, Chairman and CEO

Fang Yu（方宇）, aged 41, is the Group's Chairman, CEO and an Executive Director of the Company with effect from 19 June 2017. Mr. Fang graduated from the Central University of Finance and Economics（中央財經大學）in 2000 with a Bachelor's Degree in Economics specialized in currency banking. Mr. Fang has previously worked in the credit management department of the headquarters of Industrial and Commercial Bank of China, and served as an administrative secretary (deputy section level and section level) of the general office of the headquarters of Industrial and Commercial Bank of China as well as the general manager of the risk management department of ICBC Financial Leasing Co., Ltd.（工銀金融租賃有限公司）.

Executive Directors

An Fengjun（安豐軍）, aged 45, is an Executive Director of the Company. He was appointed as a Director on 11 March 2014 and was last re-elected on 19 June 2017. He has more than 10 years of experience in the food production industry and is primarily responsible for food production and business operation of the Group.

Mr. An joined Kangda Foods in July 1993, and was initially responsible for finance matters. In April 1996, he worked in KD Feed Company as both Finance Manager and an Assistant to Manager. He was a Finance Manager of Qingdao Kangda Foreign Trade Group Company Limited ("KD Trading Company") from 1999 to 2001 and became its Vice General Manager and Sales Manager of Qingdao Kangda Property Development Co., Ltd. in 2002. Mr. An held the position as an Executive Director of the Company since 25 August 2006 to 28 November 2012. After his resignation, Mr. An worked as a General Manager of Qingdao Liyumen Catering Co. Ltd.（青島鯉魚門餐飲有限公司）, one of the subsidiaries of KD Trading Company.

Mr. An graduated from Jiaonan City Middle Special Vocational School（膠南市職業中等專業學校）majored in Accounting in June 1993. He also completed a post-graduate course in business management in Tianjin University（天津大學）in August 2005.

Gao Yanxu（高岩緒）, aged 52, is an Executive Director of the Company. He was appointed as a Director on 10 May 2006 and was last re-elected on 19 June 2017. Mr. Gao has more than 10 years of experience in the food production industry.

From 1996 to 1999, Mr. Gao worked as the Manager of Qingdao City Jiaonan Kangda Feed Co., Ltd. ("KD Feed Company"). He then worked in Shandong Province Qingdao Kanghong Poultry & Egg Co., Ltd.（山東省青島康宏肉食蛋品有限公司）in 1999 as a Manager. Mr. Gao obtained a Bachelor's Degree in Business and Economic Management from Renmin University of China（中國人民大學）in June 1997. On 28 February 2000, he completed the courses of Master's degree in Management in Business Administration in the graduate school of Renmin University of China（中國人民大學研究生院）.

Luo Zhenwu（羅貞伍）, aged 40, is an Executive Director of the Company with effect from 19 June 2017. Mr. Luo graduated from the Central University of Finance and Economics（中央財經大學）in 2000 with a Bachelor's Degree in Finance. He obtained a Master's Degree in Accounting from Peking University（北京大學）in 2017. He was accredited the intermediate accountant qualification by the Ministry of Finance of the PRC in 2015. Mr. Luo served as expatriate finance manager and regional finance director of Guangzhou Automobile Group Business Co., Ltd.（廣州汽車集團商貿有限公司）, finance director of Beijing Jintai Yuande Asset Management Co., Ltd.（北京錦泰遠德資產管理有限公司）and finance director of Hangzhou Changjiang Automobile Holdings Co., Ltd.（杭州長江汽車控股有限公司）.

Wang Yuan（王沅）, aged 55, is an Executive Director of the Company with effect from 19 June 2017. Mr. Wang graduated from the University of International Business and Economics（對外經濟貿易大學）in 2006 with a Master's Degree in Business Administration and Management. He obtained the Certificate of Accounting Professional issued by the National Government Offices Administration in 1997 and the senior accountant qualification accredited by Sinosteel Corporation（中國中鋼集團公司）in 2005.

Mr. Wang served as an accountant in the finance department of Chemistry Unit Heavy Machinery Corporation（化工部重型機械公司）, principal staff member of China Metallurgical Import and Export Corporation（中國冶金進出口公司）and general manager of the finance department of Sinosteel Corporation. He has served as assistant to the chairman of the board of directors of NingXia Tianyuan Manganese Industry Co., Ltd since 2015 and was responsible for overseeing the management of regional offices of the group in Beijing, Tianjin, Shanghai, Shenzhen and other cities.

Board of Directors

Li Wei（李巍）, aged 35, is an Executive Director of the Company with effect from 13 October 2017. Mr. Li graduated from Wuhan University in 2005 with Bachelor's Degree in Information Safety and Bachelor's Degree in Law. He then obtained a Master of Finance from Wuhan University in 2008. Mr. Li has obtained a qualification from the Securities Association of China for securities dealings since April 2016.

Mr. Li served as a client manager of the Wuhan Branch of China Merchants Bank from July 2005 to June 2006, manager of the Integrated Department of the Central Huijin Investment Limited from June 2008 to September 2008, manager of the Operational Department and secretary to the senior management of China Investment Corporation from September 2008 to January 2015 and was promoted to the position of senior deputy manager of China Investment Corporation in 2015. Mr. Li also served as the secretary to the top leader of the Chinese preparation work group under Asian Infrastructure Investment Bank from February 2014 to October 2015. He was the managing director of the investment bank headquarter of China Galaxy Securities Co., Ltd. since October 2015. He joined Qingdao Kangda Foods Co., Ltd, one of the subsidiaries of the Company, as a General Manager in May 2017.

Independent Non-Executive Directors

Lau Choon Hoong（劉俊雄）, aged 45, is an Independent Non-Executive Director of the Company. He was appointed as a Director on 8 November 2012 and was re-elected on 29 April 2016. Mr. Lau is currently the Group CFO of The Hub's Engineering Pte Ltd. Prior to that, Mr. Lau worked as finance general manager, group financial controller and group accountant of companies listed in Singapore. Mr. Lau has also gained experience in financial and accounting markets through working in international audit firms in Singapore and Kuala Lumpur from 1996 to 2001. Mr. Lau is a member of the Institute of Singapore Chartered Accountants.

Song Xuejun（宋學軍）, aged 55, is an Independent Non-Executive Director of the Company with effect from 19 June 2017. Mr. Song graduated from Xuzhou Medical University（徐州醫科大學）in 1986 with a Bachelor's Degree in Medicine and obtained his Master's Degree in Medicine specialized in anaesthesiology from the same university in 1992. He further obtained his Doctorate Degree in Science specialized in neurobiology in 1995 from Institute of Neuroscience, Chinese Academy of Sciences（中國科學院神經科學研究所）.

Mr. Song served as the senior scientist/assistant professor and head of Laboratory Neurobiology in from 1999 to 2000, senior scientist/associate professor, director of Section of Basic Science Research and associate director of Parker Research Institute from 2000 to 2003 and professor, director of Section of Basic Science Research and associate director of Parker Research Institute from 2013 to 2016 at Parker University. He currently serves as professor, PhD tutor, organizing committee member of the Faculty of Medicine and head of the Center for Pain Medicine at Southern University of Science and Technology（南方科技大學）, and as professor and PhD tutor at the Peking University（北京大學）.

Lu Zhiwen（盧志文）, aged 54, is an Independent Non-Executive Director of the Company with effect from 19 June 2017. Mr. Lu graduated from Huaiyin Normal University（淮陰師範學院）(formerly known as "Huaiyin Higher Normal School（淮陰師範專科學校）") specialized in chemistry study in 1983. He then participated and graduated from National Secondary and Primary School Thousand Core School Principals Study Class（全國中小學千名骨幹校長研修班）organized by the National Training Center for Secondary School Principals under the Ministry of Education of the PRC in 2000. He later obtained a Degree of Executive Master of Business Administration from The University of Texas at Arlington in 2006.

Mr. Lu served as a member of the sixth session council of the education administration branch of The Chinese Society of Education（中國教育學會教育管理分會第六屆理事會）, honourary supervisor of Beichuan High School Curriculum Reform Research Centre（北川中學課改研發中心）, the chairman of Jiangsu Charming Education Foundation（江蘇昌明教育基金會）and the principal of Baoying High School of Jiangsu Province（江蘇省寶應中學）. He currently serves as the headmaster of Xiangyu Education Group（翔宇教育集團）and the principal of Wenzhou Xiangyu Middle School（溫州翔宇中學）. He also serves as the standing committee member of Chinese Society for Taoxingzhi Studies（中國陶行知研究會）, vice-president of Chinese Lantern Riddle Academic Committee（中華燈謎學術委員會）, dean of Zhejiang Wenzhou Institute of Private Education（浙江省溫州民辦教育研究院）and the vice-chairman of the first session council of China Education Development Strategy Association's Private Education Professional Committee（中國教育發展戰略學會民辦教育專業委員會第一屆理事會）.

Key Management

Fong William（方偉濂）, aged 38, is the Chief Financial Officer and company secretary of the Group. He joined the Group on 13 July 2010 and is responsible for the preparation of the Group's financial statements as well as the review and development of the effective financial policies and control procedures of the Group. Mr. Fong is also currently an Independent Non-Executive Director of North Mining Shares Company Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 433). Mr. Fong has over ten years of experience in accounting and auditing and worked in an international accounting firm prior to joining the Group. He graduated from City University of Hong Kong with a Bachelor's Degree in Accountancy and has attained an MBA from the University of Hong Kong. Mr. Fong is a member of Hong Kong Institute of Certified Public Accountants and Taxation Institute of Hong Kong.

Gao Sishi（高思詩）, aged 61, has more than 20 years of experience in the food export and production industry. He was the General Manager of the Company. Mr. Gao was a Non-Executive Chairman and Non-Executive Director of the Company and was appointed as a Director from 12 May 2006 and resigned on 19 June 2017.

During the period from March 1995 to December 1999, Mr. Gao worked as the Chairman and General Manager of KD Trading Company. From January 1992 to March 1995, Mr. Gao was the General Manager of Qingdao Jiaonan City Import and Export Company（青島市膠南進出口公司）. Mr. Gao also worked as Vice Factory Head of Jiao Nan City Foreign Trading Cold Storage Factory（膠南市外貿冷藏廠）from July 1989 to December 1991, and was the Vice Factory Head of Qingdao Jiao Nan Import and Export Company Integrated Processing Factory（青島市膠南進出口公司綜合加工廠）from September 1985 to June 1989. In addition, Mr. Gao served the Qingdao Private Enterprises Committee（青島市民營企業協會）as Vice President and is the founder of the Jiaonan City General Charity Committee（膠南市慈善總會）. Mr. Gao completed the degree course of Master in Business Administration at the graduate school of Renmin University of China（中國人民大學研究生院）in March 2004. He is the uncle of Mr. Gao Yanxu, an Executive Director of the Company.

Zhang Qi（張琪）, aged 51, is the internal audit manager and assistant to the General Manager of the Company. Mr. Zhang was appointed as a Director from 25 August 2006 and resigned on 19 June 2017. He is responsible for the auditing of the financial and operating system of the Company and is also a Director of KD Feed Company, Qingdao Tianranju Property Management Co., Ltd. and Beijing International Trust Huaxia Investment Co., Ltd., all of which are members of KD Trading Company. Mr. Zhang has more than 20 years of experience in financial matters.

In December 1986, Mr. Zhang joined Qingdao No. 9 Cotton Textile Factory（青島第九棉紡織廠）as the head of financial department and was subsequently promoted to Vice General Accountant in September 1996. During the period from 2001 to 2002, he joined Sino-Zam MuLuGuCi Textile Co., Ltd.（中贊合資穆隆古希紡織有限公司）and was responsible for financial matters. Mr. Zhang obtained a Bachelor's Degree in Financial Management majored in accounting from Qingdao University（青島大學）in July 1986.

Liu Xiaoyong（劉曉勇）,aged 40, is the Managing Director of Tian Yuan You Shan Health Management Co., Ltd, one of the subsidiaries of the Company. Mr. Liu graduated from the School of Medicine of ShangHai TongJi University in 2001 with a Bachelor's Degree and majored in clinical medicine. He worked for The Central Hospital of Beijing Railway Bureau as a doctor from 2001 to 2004. He worked as marketing manager for promoting sales channel of medical products and customers relationship from 2005 to 2007. In 2008, he operated a management consulting company and worked closed with several pharmaceutical production firms. His management consulting company was mainly engaged in advisory and provision of research and development of medical related projects, such as prescription and non-prescription, market positioning, marketing strategy as well as outsourcing production.

Key Management

Gao Yumei (高玉梅), aged 49, is the production manager of the production department of the Group. Ms. Gao has more than 20 years of experience in the food production industry. From 1985 to 1995, Ms. Gao worked in Qingdao Jiaonan City Import and Export Company (青島市膠南市進出口公司) as the complex production factory head. She later joined Qingdao Kangda Food Refrigeration Factory (青島市康大食品冷藏廠) as its head of workshop from 1995 to 1997. From 1997 to 1999, she held the position of head of workshop at Second Refrigeration Factory of Kangda Foods (青島康大食品有限公司第二冷凍廠) before joining KD Feed Company as its production manager until 2000. From 2001 to 2002, Ms. Gao was the vice manager at Qingdao Kangyang Food Company, Ltd. (青島康洋食品有限公司). She subsequently moved on to Shandong Qingdao Kanghong Meats and Eggs Products Company, Limited (山東青島康宏肉食蛋品有限公司) in 2002 where she served as a vice manager until 2003. In 2004, she joined our subsidiary, Qingdao Kangda Haiqing Food Co., Ltd. as vice manager. Ms. Gao undertook a part-time course at the Party School of Shandong Provincial Party Committee of China Communist Party (中共山東省委黨校) and obtained a Certificate in Economic Management. Ms. Gao Yumei is connected with neither Mr. Gao Yanxu nor Mr. Gao Sishi.

Xu Gui Yu (徐桂玉), aged 54, is the vice manager of the Group's production department. Ms. Xu has more than 20 years of experience in the food production industry. She joined the Group's subsidiary, Qingdao Kangda Haiqing Foods Co., Ltd, as supervisor of the production facility from 1985. In 2000, she joined another subsidiary, Qingdao Kangda Foods Co., Ltd, where she served as the supervisor of the chicken production department. For the period from 2006 to 2013, Ms. Xu held the position of assistant manager of rabbit production department. Ms. Xu completed an enterprise management course from Shandong Professional College (山東職業專業學院).

Pang Shumei (逄淑梅), aged 45, is the manager of the Group's quality control department. She has more than 10 years of working experience and is responsible for the products quality control of the Group. Ms. Pang worked in the Second Refrigeration Factory of Kangda Foods (青島康大食品有限公司第二冷凍廠) as a quality control staff during the period from 1997 to 1999. She was the head of the quality control division of Kangda Foods during 2000 to 2002. In 2003, she was the manager of the quality control department of Kangda Foods. Ms. Pang studied foods inspection and graduated from Hubei University of Technology (湖北工業大學), previously known as Hubei Technology Institute (湖北工學院), in June 1997.

Corporate Information

BOARD OF DIRECTORS
Executive:
Fang Yu (Chairman & CEO)
Gao Yanxu
An Fengjun
Luo Zhenwu
Wang Yuan
Li Wei

Independent Non-executive:
Lau Choon Hoong
Song Xuejun
Lu Zhiwen

AUDIT COMMITTEE
Lau Choon Hoong (Chairman)
Song Xuejun
Lu Zhiwen

REMUNERATION COMMITTEE
Lu Zhiwen (Chairman)
Lau Choon Hoong
Song Xuejun
Luo Zhenwu

NOMINATION COMMITTEE
Song Xuejun (Chairman)
Lau Choon Hoong
Lu Zhiwen
Fang Yu

COMPANY SECRETARIES
Fong William (HKICPA)
Chiang Wai Ming Angeline (ACS)

AUTHORISED REPRESENTATIVES
Fang Yu
Fong William

REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC
No. 1, Hai Nan Road
Economic and Technology Development Zone
Jiaonan City
Shandong Province
PRC

PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE
Suite 2403, 24/F
Central Plaza
18 Harbour Road, Wanchai
Hong Kong

SINGAPORE SHARE REGISTRAR
B.A.C.S. Private Limited
8 Robinson Road #03-00
ASO Building,
Singapore 048544

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

AUDITOR
BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

WEBSITE OF THE COMPANY
www.kangdafood.com
(The contents of the Company's website do not form part of this document)

Notes:
The following changes, as announced by the Company on 19 June 2017 became effective on the same day:
(1) Resignation of Mr. Gao Sishi as non-executive chairman and a member of the Remuneration Committee of the Company;
(2) Resignation of Mr. An Fengjun as the Chief Executive Officer of the Company;
(3) Resignation of Mr. Gao Yanxu as a member of Nomination Committee of the Company;
(4) Resignation of Mr. Zhang Qi as an non-executive director and a member of the Audit Committee of the Company;
(5) Resignation of Mr. Naoki Yamada as an non-executive director and a member of the Audit Committee and Remuneration Committee of the Company;
(6) Resignation of Mr. Chong Soo Hoon, Sean as an independent non-executive director, the chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration Committee of the Company;
(7) Resignation of Mr. Yu Chung Leung as an independent non-executive director, the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company;
(8) Appointment of Mr. Fang Yu as the chairman of the Board, the Chief Executive Officer, an executive director and a member of the Nomination Committee of the Company;
(9) Appointment of Ms. Dong Yutong and Mr. Wang Yuan as executive directors of the Company;
(10) Appointment of Mr. Luo Zhenwu as an executive director and a member of the Remuneration Committee of the Company;
(11) Appointment of Mr. Song Xuejun as an independent non-executive director, the chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration Committee of the Company; and
(12) Appointment of Mr. Lu Zhiwen as an independent non-executive director, the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee of the Company.

The following changes, as announced by the Company on 13 October 2017 became effective on the same day:
(13) Resignation of Ms. Dong Yutong as an executive director of the Company;
(14) Appointment of Mr. Li Wei as an executive director of the Company.

Management Discussion and Analysis

BUSINESS REVIEW

During the fiscal year 2017 ("FY2017"), the Group recorded a loss attributable to owners of the Company amounted to approximately RMB15.8 million as compared to a profit of approximately RMB6.3 million recorded in the fiscal year 2016 ("FY2016") due to the increase of the mortality rate of the chicken resulting from the bad weather for FY2017 and the increase in administrative cost mainly arose from the higher professional fees and the staff costs of the senior management.

The Group has been maintaining its stable operation with a suitable scale. The sales turnover increased by 5.8% from approximately RMB1,262.8 million to approximately RMB1,335.7 million for FY2017. The Group's gross profit and gross profit margin increased by 8.5% to approximately RMB110.2 million for FY2017 and from 8.0% for FY2016 to 8.3% respectively for FY2017.

Chilled and Frozen Rabbit Meat

The sales of chilled and frozen rabbit meat products increased by 12.4% to RMB157.1 million for FY2017. Due to the recovery of demand of rabbit related products, the gross profit margin of chilled and frozen rabbit meat increased from –2.8% to 2.7% for FY2017. The Group enhanced the rate of production utilization of chilled and frozen rabbit meat products through expanding sales channels and continuous marketing efforts in maintaining the market share of its major products.

Since 2015, the rabbit industry suffered a long period of market consolidation which numerous smaller rabbit breeder farms in the market were closed. The decline in number of small rabbit breeder farms in 2015 and 2016 caused a significant decrease in rabbit meat supply to the market. As a result, the market demand and selling price of rabbit meat products rebounded in FY2017.

Furthermore, in order to satisfy the increasing market demand of rabbits from overseas, the Group has invested in rearing "free rearing" rabbits including improving the related production and breeding facilities to comply with the European animal protection rights' requirement. This investment has also increased the competitiveness of the Group and provided the Group with a good way of acquiring higher returns. The Group believed that under such strategy, the operational risks of the rabbit meat segment would be controlled more effectively.

Chilled and Frozen Chicken Meat and Processed Foods

Revenue derived from the production and sales of chilled and frozen chicken meat products increased by 15.8% to RMB268.9 million while revenue for the production and sales of processed food products decreased slightly by 5.5% to RMB690.9 million for FY2017. Affected by H7N9, there was inadequate supply of chicken in the market. Therefore, the supply of Group's chilled and frozen chicken meat products has increased to satisfy the demand in the market. The decrease of production and sales of processed food products was due to the decrease of demand from local market.

Due to bad weather in FY2017, the mortality rate of the chicken has greatly increased and exerted a negative impact on the breeding and production process. This fierce business environment put additional pressure on the profit growth of the chicken meat segment.

To reduce the adverse influence of chicken meat segment, the Group has made effort to optimize business portfolio by allocating more chicken resources to profitable processed foods businesses. The Group will continue to reduce the sales of the chilled and frozen chicken meat segment in the low-value sales channels and strive to ensure the supply on high-value processed chicken products segment. The Group believes that this integration will accelerate the Group's progress of food processing development and improve the Group competitiveness and ability to endure market risks.

Management Discussion and Analysis

PROSPECT

The management expects that the development of the food industry will continue to face challenges with low growth and intense competition, implying greater challenges ahead of the Group's business. To maintain the overall profitability, the Group will continue to increase sales contribution from high value-added chicken related processed foods and nurturing major customers.

Rabbit meat segment is always the core and competitive business of the Group. Rabbit meat is healthy with far more protein and less fat and calorie levels than other meats. The Group is one of 8 enterprises in the PRC which had successfully obtained the approval to export rabbit meat to overseas market. The Group is confident that the demands for rabbit meat will restore with the further improvement of living standards and more consumers tend to prefer a wider variety of nutritious foods. Therefore, the Group will continue to leverage on its leading position in the rabbit products and offer consumers with healthy and safe products and services.

The Group has also invested most resources on innovation and application of biotechnology and information technology across the rabbit industry and was the first company to be granted the certification for breeding progeny rabbit in the PRC. Also, the Group endeavors in the research and development of brand new high value-added healthcare and biological products by constantly utilizing the latest food science and technology.

Management has been actively exploring other business opportunities in order to strengthen the existing business of the Group. For FY2017, the Group has been exploring suitable opportunities to develop business in the retail healthcare and/or pharmaceutical business. This strategy can supplement and accelerate the development of its existing sales channels and acquiring or opening of retail chains ("Pharmacies") for the Group's brand new high value-added healthcare products so as to develop new customer bases and expand the channel penetration.

The business of the Pharmacies being in the developing stage and the Group adopted a prudent approach in managing the Pharmacies business. In 2018, the Group planned and started to open and acquire pharmacies respectively in other developed cities in the PRC, such as Beijing. On 22 March 2018, Tian Yuan You Shan (Beijing) Pharmacy Co., Ltd.*（天元佑善（北京）醫藥有限公司）, one of the subsidiaries of the Company engaging in retail and wholesale of healthcare and pharmaceutical products, signed an equity transfer agreement to acquire pharmacies in Beijing, which are located outside Beijing's fifth ring, such as Tongzhou, Changping, Fangshan and Daxing District. Demand in pharmaceutical market in the PRC will continue to grow due to the aging population, rapid urbanization and universal medical insurance coverage. Qingdao and Beijing are the two potential markets, with good GDP and high resident's living standard, for the development of healthcare and pharmaceutical sectors. The Group believes that the higher visibility and gradual implementation of subsequent policies of the medical reform will bring a more structured and healthy development to the industry. This development was able to expand the existing sales channels for the high value-added healthcare and biological products manufactured by the Group and allow the Group to venture into the retail healthcare and/or pharmaceutical industry which has shown strong growth potential.

* English name is for identification purpose only

Correspondingly, the Group will continue to reduce our costs by identifying and restructuring its operations. On 29 January 2018, we entered into two equity transfer agreements to dispose all the equity interests of the Group in Jilin Kangda Foods Co., Ltd.*（吉林康大食品有限公司）and Laiwu Kangda Feeds Co., Ltd.*（萊蕪康大飼料有限公司）and one-off gain on the disposal will be expected to record in the 2018 interim results. Jilin Kangda Foods Co., Ltd.*（吉林康大食品有限公司）was located in Jilin and had experienced loss for the three consecutive years from 2014 to 2016 because of the unsuitable climate environment for the growth of rabbits. Through the disposal, the Group can also enhance the cash flows of the Group and redeploy its resources to working capital or investment in existing and future projects which will increase the overall profitability of the Group.

The Group, as always, implemented brand strategy for food and healthcare and biological products, strictly ensured food safety, constantly optimized structure, refined management, developed channels and strengthened cooperation.

OPERATING AND FINANCIAL REVIEW

REVENUE BY PRODUCTS

	FY2017 RMB'000	FY2016 RMB'000	% Change +/(-)
Processed food	**690,912**	730,786	(5.5)
Chilled and frozen rabbit meat	**157,107**	139,802	12.4
Chilled and frozen chicken meat	**268,881**	232,259	15.8
Other products	**218,767**	159,938	36.8
Total	**1,335,667**	1,262,785	5.8

Processed Food Products
Revenue derived from the production and sales of processed food products decreased slightly by 5.5% to RMB690.9 million for FY2017 due to the decrease of demand from local market.

Chilled and Frozen Meat Products
The chilled and frozen rabbit and chicken meat segments contributed 31.9% to the Group's total revenue for FY2017, compared to 29.5% for FY2016.

– ***Chilled and Frozen Rabbit Meat***
The Group captured market opportunities, expanded the volume of breeding and increased productivity so the sales of chilled and frozen rabbit meat products increased by 12.4% to RMB157.1 million for FY2017.

– ***Chilled and Frozen Chicken Meat***
Revenue derived from the production and sales of chilled and frozen chicken meat products increased by 15.8% to RMB268.9 million for FY2017. The increase in production and sales volume of chicken meat products was in line with the consolidation of the PRC market environment.

Other Products
By exploring new overseas customers on an ongoing basis and consolidating and strengthening the effort in the export of pet food products, the demand of pet food products from Europe market increased. As a result, revenue derived from the production and sale of other products increased by 36.8% to RMB218.8 million for FY2017.

REVENUE BY GEOGRAPHICAL MARKETS

	FY2017 RMB'000	FY2016 RMB'000	% Change +/(-)
Export	**626,941**	580,968	7.9
PRC	**708,726**	681,817	4.0
Total	**1,335,667**	1,262,785	5.8

On a geographical basis, revenue from export sales increased by 7.9% to RMB626.9 million for FY2017. The increase in export sales was attributable mainly to the increase in demand for rabbit meat products and pet food products from Europe.

Revenue from PRC increased slightly by 4.0% to RMB708.7 million for FY2017.

* *English name is for identification purpose only*

Management Discussion and Analysis

PROFITABILITY

Gross Profit and Margin

	FY2017 RMB'000	FY2017 Margin %	FY2016 RMB'000	FY2016 Margin %	Change RMB'000	% Change +/(-)
Processed food	**77,141**	**11.2**	87,018	11.9	(9,877)	(11.4)
Rabbit meat	**4,307**	**2.7**	(3,904)	(2.8)	8,211	(210.3)
Chicken meat	**7,152**	**2.7**	3,990	1.7	3,162	79.3
Other products	**21,629**	**9.9**	14,472	9.0	7,157	49.5
Total	**110,229**	**8.3**	101,576	8.0	8,653	8.5

For 2017, due to the continuously adjustment to the product mix of the Group in response to the customer needs, the overall gross profit margin increased slightly from 8.0% to 8.3%.

Processed Food Products

Processed food products were the main profit contributor for FY2017. Due to the decrease in selling price, the gross profit margin declined from 11.9% to 11.2% for FY2017.

Chilled and Frozen Rabbit Meat

The negative profit margin for FY2016 was due to the sales of rabbit skin related products at a lower price in the fourth quarter of 2016. There was no such factor for FY2017 and the gross profit margin of chilled and frozen rabbit meat increased from –2.8% to 2.7% for FY2017.

Chilled and Frozen Chicken Meat

In 2017, the price and demand of chicken meat finally reached a support level. As a result of the increase purposively in selling prices according to the market situation, the gross profit of chilled and frozen chicken meat segment increased from 1.7% to 2.7% for FY2017. The factor of the higher mortality rate of the chicken was reflected in the loss arising from changes in fair value less estimated costs to sell of biological assets in accordance to the IAS 41.

Other Products

Other products are mainly pet food products, chicken and rabbit meat by-products and feeds. Due to the increase in selling price, gross profit margin increased from 9.0% to 9.9% for FY2017 and gross profit increased from RMB14.5 million to RMB21.6 million.

Other Income

Other income comprised mainly government grants, gain on change in fair value of biological assets, insurance claim and interest income from financial assets amounting to RMB4.8 million, RMB1.6 million, RMB6.1 million and RMB8.3 million respectively. The rest were mainly gain arising from sales of rabbit excrement as fertilizer. The decrease in other income is mainly due to the increase of the mortality rate of the chicken caused by bad weather during the year. This is the major reason causing the decrease of the gains arising from changes in fair value less estimated costs to sell of biological assets decreased by 95.7% to approximately RMB1.6 million.

Selling and Distribution Expenses

Selling and distribution expenses comprised mainly transportation costs, sales promotion expenses, salary and welfare which slightly decreased by 0.8% to approximately RMB34.4 million.

Administrative Expenses

Administrative expenses comprised mainly staff costs, professional fees, depreciation charge, travelling expenses and other miscellaneous administrative expenses. The increase in administrative expenses by 19.1% was due to (i) increase of the staff costs of the senior management and (ii) increase in professional fees in relation to the conversion of the Company's listing status in SGX-ST and the change in the Company's shareholding structure in January 2017 and June 2017 respectively.

Other Operating Expenses

Other operating expenses represented miscellaneous expenses, comprising mainly write off property, plant and equipment, which increased by 39.5% to approximately RMB26.3 million for FY2017. The increase was due to the increase of written off of property, plant and equipment as a result of the upgrading of the existing factories facilities and the conversion of animal farms (from a chicken farm to a rabbit farm).

Impairment loss on property, plant and equipment

There was no impairment loss on property, plant and equipment during the year.

Finance costs

Finance costs decreased by 21.2% to approximately RMB30.9 million for FY2017 due mainly to the decrease of average bank borrowing amount during the year and the decrease of interest rate of the bank borrowings.

Taxation

Taxation increased by 46.4% to approximately RMB3.3 million for FY2017. Under the New PRC Corporate Income Tax Law and Implementation Rules, enterprises that engage in qualifying agricultural business are eligible for certain tax benefits, including full corporate income tax exemption of corporate income tax on profits derived from such business. The tax exemption granted to the Group decreased with the decrease of qualifying agricultural business for FY2017. Therefore, some of the operating profit are charged with corporate income tax during the year and the tax expense increased significantly.

Review of the Group's Financial Position as at 31 December 2017

The Group's property, plant and equipment decreased by 5.6% to approximately RMB747.8 million as at 31 December 2017 due mainly to additions of property, plant and equipment of approximately RMB49.2 million and this was offset by a depreciation charge and disposal of property, plant and equipment of approximately RMB67.5 million and approximately RMB25.7 million respectively.

The prepaid premium for land leases decreased by 3.7% to approximately RMB112.2 million as at 31 December 2017 due mainly to an amortisation charge of land use right amounted to approximately RMB4.3 million.

Goodwill arose from the acquisitions of subsidiaries in the past.

The deposits for property, plant and equipment were the deposits paid for the future increase in machineries and were non-current in nature.

Biological assets refer to progeny rabbits and progeny chickens for sale and breeder rabbits and chickens for breeding purpose. These biological assets were valued by an independent professional valuer as at 31 December 2017 with reference to market-determined prices.

Management Discussion and Analysis

Inventories increased by 36.0% to approximately RMB171.0 million due to the anticipation of an increase in demand in the first quarter of 2018. The inventory turnover days for FY2017 were 44 days compared to 48 days for FY2016.

Trade and bills receivables increased by 6.0% to approximately RMB98.1 million as at 31 December 2017 due mainly to the increase of sales during the year. The trade and bills receivables turnover days was 26 days for FY2017 compared to 23 days for FY2016.

Prepayments, other receivables and deposits decreased by 41.1% to approximately RMB42.3 million as at 31 December 2017. The decrease was due mainly to the decrease of trade deposit paid to suppliers.

Cash and cash equivalents, including pledged deposits, decreased by approximately 3.5% to approximately RMB372.8 million. Approximately RMB40.5 million of the bank deposit was secured against the bills payables of the Group.

Trade and bills payables decreased by 14.6% to approximately RMB263.5 million as at 31 December 2017. The decrease in the trade and bills payables was due mainly to the decrease of bill payables secured by the pledged deposits from approximately RMB139.8 million to approximately RMB79.0 million as at 31 December 2017.

Accrued liabilities and other payables represented payables for construction, salary and welfare payables, accrued expenses and deposit received. It increased by 7.2% to approximately RMB128.4 million as at 31 December 2017 and the increase was due to the increase of deposits placed by customers and the increase of payables of construction costs compared to 31 December 2016.

The interest-bearing bank and other borrowing balances as at 31 December 2017 decreased by RMB1.9 million to approximately RMB557.1 million after taking into account the additional borrowings of approximately RMB657.4 million and repayment of the borrowings of approximately RMB658.9 million during the year. Approximately RMB20.0 million of the bank borrowing and approximately RMB11.8 million of the other borrowing were classified as non-current liabilities.

Change in balance with a related party represented the outstanding balance due to Qingdao Kangda Foreign Trade Group Limited as a result of the settlement, trading and financing transactions.

Tax payables increased from RMB0.5 million to RMB2.6 million as at 31 December 2017. This was due to accrual of income tax during the year.

EVENTS AFTER REPORTING PERIOD

Save as disclosed in this report disclosed in note 41 to the financial statements and reference is made to the announcement of the Company dated 29 January 2018, there is no material subsequent event undertaken by the Company or by the Group after 31 December 2017 and up to the date of this report.

CAPITAL STRUCTURE

During the year under review, the Group had net assets of approximately RMB666.2 million (31 December 2016: RMB678.5 million), comprising non-current assets of approximately RMB958.5 million (31 December 2016: RMB1,004.0 million), and current assets of approximately RMB728.2 million (31 December 2016: RMB725.1 million). The Group recorded a net current liability position of approximately RMB232.9 million (31 December 2016: RMB267.7 million) as at 31 December 2017, which primarily consist of cash and cash equivalents balances amounted to approximately RMB332.4 million (31 December 2016: RMB284.2 million). Moreover, inventories amounted to approximately RMB171.0 million (31 December 2016: RMB125.8 million) and trade and bills receivables amounted to approximately RMB98.1 million (31 December 2016: RMB92.5 million) are also major current assets. Major current liabilities are trade and bills payables and interest-bearing bank borrowings amounted to approximately RMB263.5 million (31 December 2016: RMB308.6 million) and approximately RMB525.3 million (31 December 2016: RMB529.0 million) respectively.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group has cash and cash equivalent of approximately RMB332.4 million (31 December 2016: RMB284.2 million) and had total interest-bearing bank borrowings of approximately RMB545.3 million (31 December 2016: RMB559.0 million) and other borrowing of approximately RMB11.8 million (31 December 2016: Nil) respectively. The Group's interest-bearing bank borrowings and other borrowing were debts with interest rate ranging from 4.03% to 6.88% (31 December 2016: 4.57% to 6.88%) and 3.5% (31 December 2016: Nil) per annum respectively.

The gearing ratio for the Group was 93.7% as at 31 December 2017 (31 December 2016: 90.9%), based on total debt of approximately RMB595.3 million (31 December 2016: RMB591.2 million) and equity attributable to Company's owners of approximately RMB635.1 million (31 December 2016: RMB650.4 million). The Group would serve its debts primarily with cash flow generated from its operation, seeking renewal of the outstanding bank borrowings and new banking facilities and exploring the availability of alternative source of financing. The Board is confident that the Group has adequate financial resources to meet its future debt repayment and support its working capital requirement and future expansion.

FOREIGN CURRENCY EXPOSURE

The following table details the Group's exposures at the reporting date to foreign currency risk from the financial assets and financial liabilities denominated in a currency other than the functional currency to which the Group's entities relate:

	USD RMB'000	EURO RMB'000	JPY RMB'000	SGD RMB'000	HK$ RMB'000
Financial assets					
Trade receivables	42,756	7,454	579	–	–
Cash and bank balances	2,901	1,611	–	5	4,635
	45,657	9,065	579	5	4,635
Financial liabilities					
Trade payables	3,562	–	–	–	–
Bank borrowings	1,319	–	–	–	–
Other borrowing	–	–	–	–	11,760
	4,881	–	–	–	11,760

In view of the nature of the Group's business, which spans several countries, foreign exchange risks will continue to be an integral aspect of its risk profile in the future. Currently, the Group neither has a formal foreign currency hedging policy nor conducts hedging exercise to reduce foreign currency exposure. The Group will continue to monitor its foreign exchange exposure.

CAPITAL COMMITMENTS

As at 31 December 2017, there is capital commitment of the Group which had been contracted for but not provided in the financial statements amounted to approximately RMB7.6 million (2016: RMB5.5 million).

Management Discussion and Analysis

CHARGE ON ASSETS

Total secured interest-bearing bank borrowings were approximately RMB380.0 million as at 31 December 2017 (2016: RMB345.0 million).

As at 31 December 2016 and 2017, the Group's interest-bearing bank borrowings were guaranteed by certain related parties of the Group and a third party and secured against pledge of certain of the Group's property, plant and equipment, land use rights, and certain of related party's properties.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities (2016: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2017, the Group employed a total of 4,804 employees (2016: 4,406 employees) in the PRC. The Group's emolument policy is formulated based on the industry practices and performance of individual employee. During the year under review, the total staff costs (including Directors' emoluments) were in the amount of approximately RMB201.3 million (2016: RMB191.0 million). The Company does not have share option scheme for its employees.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

The Group did not have any significant investments held or any material acquisitions or disposals of subsidiaries or associated companies during the year ended 31 December 2017.

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

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year ended 31 December 2017.

Corporate Structure

* Disposed subsequent to 31 December 2017

Corporate Governance Report

(I) STATEMENT OF COMPLIANCE

It is the policy of the Company to manage the affairs of the Group in accordance with the appropriate standards for good corporate governance. Summarised below is a statement on how the Company during the year ended 31 December 2017 has applied the principles and complied with the code provisions as set out in the Corporate Governance Code in effect during the year ended 31 December 2017 (the "CG Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules"), save for certain deviations from the relevant Code Provisions A.2.1, A.3.2 listed below.

A. Directors

A.1 The Board

Principle

An issuer should be headed by an effective Board which should assume responsibility for its leadership and control and be collectively responsible for promoting its success by directing and supervising its affairs. Directors should take decisions objectively in the best interests of the issuer.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the issuer, and whether he is spending sufficient time performing them.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.1.1	At least 4 regular physical Board meetings should be held each year.	No	The Board has overall responsibility for the proper conduct of the Company's business. Regular Board meetings are held on a quarterly basis and ad hoc Board meetings will be held as and when required.
A.1.2	All Directors should be given an opportunity to include matters in the agenda for regular Board meetings.	No	Draft notice and agenda for regular Board meetings are provided to all Directors for comments and consideration and inclusion of any matters for deliberation at the meetings.
A.1.3	Notice of at least 14 days should be given of a regular Board meeting. For all other Board meetings, reasonable notice should be given.	No	Reasonable notice will be given for all other Board meetings.
A.1.4	Minutes of Board and Board Committees meetings should be kept by a duly appointed secretary of the meeting and should be open for inspection on reasonable notice by any Director.	No	Minutes of the meetings of the Board, the Audit Committee, the Nomination Committee, and Remuneration Committee are kept by the Company Secretary. Such minutes are available for inspection on reasonable notice by any Director.
A.1.5	Draft and final versions of minutes of Board meetings should be sent to all Directors for their comments and records within a reasonable time after the Board meeting is held.	No	Draft and final versions of minutes of Board meetings are sent to all Directors for their comments and records within a reasonable time.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.1.6	There should be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer's expense.	No	The Board has agreed on a procedure to enable the Directors to seek independent professional advice in appropriate circumstances, at the Company's expense, to assist them to perform their duties.
A.1.7	If a substantial shareholder or a Director has a conflict of interest in a material matter to be considered by the Board, the matter should be dealt with by a physical Board meeting rather than a written resolution.	No	Material transactions with connected persons will be considered at Board meetings whereat the Directors may consider, if appropriate, granting approval in-principle for the proposed transactions and authorising the final forms thereof be further approved by way of circulation of written resolution or by a Board committee set up for that purpose. The Company's Bye-laws and the Bermuda laws allow the attendance of the Company's Directors by means of, inter alia, telephone or electronic facilities and such attendance shall be counted as attendance at a physical Board meeting.
A.1.8	Issuer should arrange appropriate insurance cover in respect of legal action against its Directors.	No	All Directors are provided with appropriate insurance cover in respect of legal action against them.

A.2 Chairman and Chief Executive

Principle

There are two key aspects of the management of every issuer – the management of the Board and the day-to-day management of business. There should be a clear division of these responsibilities to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.2.1	Roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.	Yes	The Chairman of the Board, Mr. Fang Yu, is also the CEO. With the establishment of various Board Committees with power and authority to perform key functions and putting in place internal controls to allow effective oversight by the Board of the Group's business, the Board is of the view that these enable the Board to exercise objective decision-making in the interests of the Group. The Board believes that Mr. Fang Yu's dual role as Chairman and CEO allows for more effective planning and execution of long-term business strategies.

Corporate Governance Report

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.2.2	The Chairman should ensure that all Directors are properly briefed on issues arising at Board meetings.	No	All Directors are properly briefed on issues arising at Board meetings.
A.2.3	The Chairman should ensure that Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable.	No	Adequate business documents and information about the Group are provided to all Directors in a timely manner.
A.2.4	The Chairman provides leadership for the Board and should ensure that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner.	No	The Board, under the leadership of the Chairman, works effectively and performs its responsibilities with all key and appropriate issues discussed in a timely manner. Comments on the draft notice and agenda of regular Board meetings and matters proposed to be included in such drafts by any Director will be duly considered before finalisation.
A.2.5	The Chairman should ensure that good corporate governance practices and procedures are established.	No	The Board establishes and maintains good governance practices and procedures.
A.2.6	The Chairman should encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that it acts in the best interests of the issuer.	No	All Directors are encouraged to make a full and active contribution to the Board's affairs and to voice their concerns if they have different views. Directors are given sufficient time for discussion at Board meetings. All Directors endeavour to act in the best interests of the Company.
A.2.7	The Chairman should at least annually hold meetings with the Non-executive Directors (including INEDs) without the Executive Directors present.	No	During the year under review, the Chairman of the Company had held a meeting with the INEDs of the Company.
A.2.8	The Chairman should ensure that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole.	No	Shareholders' Communication Policy has been established by the Board to ensure that an effective system of communication with shareholders is in place. Shareholders are encouraged to participate in general meetings whereat members of the Board and Board Committees are available to answer their questions.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.2.9	The Chairman should promote a culture of openness and debate by facilitating the effective contribution of Non-executive Directors and ensuring constructive relations between Executive and Non-executive Directors.	No	All Directors are encouraged to openly share their views on the Company's affairs and issues and they are entitled to have access to Management who will respond to queries raised by the Directors as promptly and fully as possible. The Board has agreed on a procedure to enable the Directors to seek independent professional advice in appropriate circumstances, at the Company's expense, to assist them to perform their duties.

A.3 Board composition

Principle

The Board should have a balance of skills and experience and diversity of perspectives appropriate to the requirements of the issuer's business. It should ensure that changes to its composition can be managed without undue disruption. It should include a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement. Non-executive Directors should be of sufficient calibre and number for their views to carry weight.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.3.1	INEDs should be identified in all corporate communications that disclose the names of Directors.	No	Composition of the Board at the prevailing time throughout the year, by category of Directors, including names of Executive Director(s), NED and INEDs, has been disclosed in all corporate communication.
A.3.2	Issuer should maintain on the websites of its own and the Exchange an updated list of its Directors identifying their roles and functions and whether they are INEDs.	Yes	An updated list of the Company's Directors identifying their roles and functions and whether they are INEDs is available on the website of the Exchange. The Company is of the view that it is not necessary to maintain such list on the Company's website since all the information is available on the website of the Exchange.

A.4 Appointments, re-election and removal

Principle

There should be a formal, considered and transparent procedure for the appointment of new Directors. There should be plans in place for orderly succession for appointments. All Directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any Director.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.4.1	Non-executive Directors should be appointed for a specific term, subject to re-election.	No	The NEDs and INEDs should be appointed for a specific term, subject to re-election. The INEDs of the Company, Mr. Lau Choon Hoong, Mr. Song Xuejun and Mr. Lu Zhiwen, are each appointed by the Company for a one-year term. Their appointment may be terminated by either party giving at least one month's written notice or in accordance with the terms of their appointment letters. The INEDs of the Company who had resigned on 19 June 2017, Mr. Yu Chung Leung and Mr. Chong Soo Hoon, Sean, were each appointed for a one-year term. Their appointment may be terminated by either party giving at least one month's written notice or in accordance with the terms of the appointment letters.
A.4.2	All Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every Director should be subject to retirement by rotation at least once every three years.	No	The Company's Bye-laws conform with this code provision whereby every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and Directors appointed by the Board to fill casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.
A.4.3	Re-appointment of any INED who has served more than 9 years should be subject to a separate resolution to be approved by shareholders and the papers to shareholders accompanying that resolution should include the reasons why the Board believes he is still independent and should be re-elected.	No	There is no INED who has served more than 9 years.

A.5 Nomination Committee

Principle

In carrying out its responsibilities, the Nomination Committee should give adequate consideration to the Principles under A.3 and A.4 above.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.5.1	A Nomination Committee should be established and be chaired by the Chairman of the Board or an INED and comprises a majority of INEDs.	No	The Board has established a Nomination Committee which is chaired by an INED. A majority of the members of the Nomination Committee are INEDs.
A.5.2	The Nomination committee should have specific written terms of reference to include the prescribed specific duties.	No	The Nomination Committee has specific written terms of reference which contain all the specific duties as prescribed by the CG Code. Please refer to section (III)(C)(2) of this Report for the principal duties of the Nomination Committee.
A.5.3	The Nomination Committee should make available its terms of reference by including them on the websites of the Exchange and the issuer.	No	Terms of reference of the Nomination Committee (including its role and functions) are available on the websites of the Exchange and the Company.
A.5.4	The Nomination committee should be provided with sufficient resources to perform its duties.	No	The Nomination Committee is entitled to seek independent professional advice, at the Company's expenses, if it considers necessary in order to perform its duties.
A.5.5	Where the Board proposes a resolution to elect an individual as an INED at the general meeting, it should set out in the in the circular to shareholders and/or explanatory statements accompanying the notice of the relevant general meeting the reasons why it believes the individual should be elected and considers him to be independent.	No	For the proposed re-appointment of the retiring INED during the year under review, the Company has included in the circular to shareholders accompanying the notice of the relevant general meeting the reasons why the Board considered him to be independent and recommended him to be re-elected.
A 5.6	The Nomination Committee (or the Board) should have a policy concerning diversity of Board members, and should disclose the policy or a summary of the policy in the Corporate Governance Report.	No	The Nomination Committee is of the view that the current Board composition is in tact. The Nomination Committee would review the need to establish a policy concerning diversity of Board members at an appropriate time.

A.6 *Responsibilities of Directors*

Principle

Every Director must always know his responsibilities as a Director of an issuer and its conduct, business activities and development. Given the essential unitary nature of the Board, Non-executive Directors have the same duties of care and skill and fiduciary duties as Executive Directors.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.6.1	Every newly appointed Director should receive a comprehensive, formal and tailored induction on appointment. Subsequently, he should receive such briefing and professional development as is necessary.	No	Every newly appointed Directors are given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. The Directors are updated on the latest developments regarding the Hong Kong Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to Directors will be arranged whenever necessary.
A.6.2	Functions of Non-executive Directors should include the following: (a) participating in Board meetings to bring an independent judgement; (b) taking the lead where potential conflicts of interest arise; (c) serving on the audit, remuneration, nomination and other governance committees, if invited; and (d) scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting.	No	All INEDs of the Company in office during the year under review have duly performed these functions.
A.6.3	Every Director should give sufficient time and attention to the issuer's affairs.	No	The Directors continue to give appropriate time and attention to the affairs of the Company.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.6.4	Directors Written guidelines should be established for relevant employees' dealings in the securities of the issuer, which shall be on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. "Relevant Employee" includes any employee or a Director or employee of a subsidiary or holding company who is likely to be in possession of unpublished price sensitive information in relation to the issuer or its securities.	No	The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules in force during the year ended 31 December 2017 as its code of conduct regarding securities transactions by its Directors. The Model Code has been extended and has become equally applicable to dealings in the securities of the Company by members of Management as included in the Company's latest Annual Report or as otherwise resolved by the Board from time to time.
A.6.5	All Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The issuer should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director.	No	All Directors are provided with continuous updates and briefings on the latest changes or material developments in statutes, the Listing Rules, corporate governance practices, etc. and are encouraged to participate in continuous professional development programmes, at the Company's expenses, to update and enhance their knowledge and skills for performing Directors' roles and responsibilities. The Company maintains and updates a record of training received by the Directors. Please refer to sections (III)(A)(8) to (10) of this Report for further details.

Corporate Governance Report

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.6.6	Each Director should disclose to the issuer at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. The identity of the public companies or organisations and an indication of the time involved should also be disclosed.	No	Each Director is required, on appointment, to disclose to the Board his directorships in public companies or organisations and other significant commitments, and provides continuous updates, on a regular basis, for any change therein, with an indication of the time involved.
A.6.7	INEDs and other Non-executive Directors, as equal Board members, should give the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.	No	During the year under review, all INEDs and, where relevant, the NED of the Company have given the Board and any Board Committees on which they served the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation at meetings of the Board and relevant Board Committees (as the case may be). All INEDs of the Company had attended the Extraordinary General Meeting and AGM of the Company held on 12 January 2017 and 19 June 2017 respectively. They were available to answer questions thereat. Save for the aforesaid, no other general meeting was held during the year under review.
A.6.8	INEDs and other Non-executive Directors, should make a positive contribution to the development of the issuer's strategy policies through independent, constructive and informed comments.	No	Please refer to the sections headed "Directors" and "Key Management" of the Company's Annual Report setting out their profiles for the skills and experience of each Director. Adequate business documents and information about the Group were provided to all Directors in a timely manner. The INEDs and, where relevant, the NED in office during the year were able to provide independent, constructive and informed comments and decisions on the development of the Company's strategy and policies.

A.7 Supply of and access to information

Principle

Directors should be provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
A.7.1	For regular Board meetings, and as far as practicable in all other cases, Board papers should be sent, in full, to all Directors at least 3 days (or other agreed period) before a Board or Board Committee meeting.	No	Board papers in respect of regular Board meetings, and as far as practicable in all other cases, are sent to all Directors or Board Committee members (as the case may be) at least 3 days (or other agreed period) before the relevant meetings.
A.7.2	Management has an obligation to supply the Board and its committees with adequate information in a timely manner. The Board and individual Directors should have separate and independent access to the issuer's Senior Management.	No	The Company continues to supply the Board and its committees with adequate information in a timely manner. There are formal and informal contacts between the Board and the Management from time to time at Board meetings and other events.
A.7.3	All Directors are entitled to have access to Board papers and related materials. Queries raised by Directors should receive a prompt and full response, if possible.	No	Board papers, minutes and related corporate documentation are made available for inspection by all Directors. All Directors are entitled to have access to Management who will respond to queries raised by the Directors as promptly and fully as possible.

B. Remuneration of Directors and Senior Management and Board Evaluation

B.1 The level and make-up of remuneration and disclosure

Principle

An issuer should disclose its Directors' remuneration policy and other remuneration related matters. The procedure for setting policy on Executive Directors' remuneration and all Directors' remuneration packages should be formal and transparent. Remuneration levels should be sufficient to attract and retain Directors to run the company successfully without paying more than necessary. No Director should be involved in deciding his own remuneration.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
B.1.1	The Remuneration Committee should consult the Chairman and/or Chief Executive about their remuneration proposals for other Executive Directors and have access to independent professional advice if necessary.	No	The Remuneration Committee consults the Chairman of the Company on formulating proposals on the remuneration of other Executive Directors (except his associates). During the financial year, the Remuneration Committee did not require the service of an independent professional advice.
B.1.2	The terms of reference of the Remuneration Committee should include, as a minimum, the prescribed specific duties.	No	Terms of reference of the Remuneration Committee contain all the specific duties as prescribed by the CG Code. Please refer to section (III)(B)(2) of this Report for the principal duties of the Remuneration Committee.
B.1.3	The Remuneration Committee should make available its terms of reference by including them on the websites of the Exchange and the issuer.	No	Terms of reference of the Remuneration Committee (including its role and functions) are available on the websites of the Exchange and the Company.
B.1.4	The Remuneration Committee should be provided with sufficient resources to perform its duties.	No	The Remuneration Committee is entitled to seek independent professional advice, at the Company's expenses, if it considers necessary in order to perform its duties.
B.1.5	Issuers should disclose details of any remuneration payable to members of Senior Management by band in their annual reports.	No	Remuneration paid to members of Senior Management has been disclosed by band in the Company's Annual Report. Please refer to section (III)(B)(5) of this Report for details of remuneration payable to members of Senior Management by band.

C. Accountability and Audit

C.1 Financial reporting

Principle

The Board should present a balanced, clear and comprehensible assessment of the issuer's performance, position and prospects.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
C.1.1	Management should provide sufficient explanation and information to the Board to enable it to make an informed assessment of financial and other information put before it for approval.	No	The Directors are regularly provided with relevant reports and updates on the Company's business and financial information.
C.1.2	Management should provide all members of the Board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the Board and each Director to discharge their duties.	No	All Directors are provided with monthly updates giving a balanced and understandable assessment of the Group's performance, position, recent developments and prospects, where applicable, in sufficient details to keep the Directors abreast of the Group's affairs in order to perform their duties.
C.1.3	The Directors should acknowledge in this Report their responsibility for preparing the accounts. There should be a statement by the auditor about their reporting responsibilities in the Auditor's Report on the financial statements.	No	The Directors are responsible for preparing accounts for each financial year which give a true and fair view of the financial position of the Group and of the financial performance and cash flows of the Group for the year then ended. In preparing accounts for the year ended 31 December 2017, the Directors have: (i) selected suitable accounting policies and applied them consistently; (ii) made judgements and estimates that are prudent and reasonable; and (iii) prepared accounts on the going concern basis. The Auditor's Report states the auditor's reporting responsibilities.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
C.1.4	The Directors should include in the separate statement containing a discussion and analysis of the issuer group's performance in the annual report, an explanation of the basis on which the issuer generates or preserves value over the longer term and the strategy for delivering the issuer's objectives of the Group.	No	The Company's corporate strategy and long term business model are explained in the section headed "Management Discussion and Analysis" of the Company's Annual Report.
C.1.5	The Board should present a balanced, clear and understandable assessment in annual and interim reports and other financial disclosures required by the Listing Rules; and for reports to regulators and information disclosed under statutory requirements.	No	The Board endeavours to present a balanced, clear and understandable assessment of the Group's position in all corporate communications issued under statutory and/or regulatory requirements.

C.2 Risk management and internal control

Principle

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer's strategic objectives, and ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems. The Board should oversee Management in the design, implementation and monitoring of the risk management and internal control systems, and Management should provide a confirmation to the Board on the effectiveness of these systems.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
C.2.1	The Board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in the Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls.	No	The Board through the Audit Committee, has conducted annual review of the effectiveness of the Group's systems of risk management and internal control, which cover all material controls including financial, operational, compliance and information technology risks. The Board is of the view that the Group maintains reasonably sound and effective systems of risk management and internal control relevant to its level of operations. Please refer to section (II) of this Report headed "State of Risk Management and Internal Control" for the details.
C.2.2	The Board's annual review should, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit and financial reporting functions.	No	The Company has outsourced its internal audit function to an external audit firm, namely Elite Partners CPA Limited. The Audit Committee and the Board are of the view that the internal auditors have the relevant qualifications and adequate resources to perform the functions effectively.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
C.2.3 The Board's annual review should, in particular, consider: (a) the changes, since the last annual review, in the nature and extent of significant risks, and the issuer's ability to respond to changes in its business and the external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers; (c) the extent and frequency of communication of monitoring results to the Board (or Board Committee(s)); (d) significant control failings or weaknesses that have been identified during the period have had, could have had, or may in the future have, a material impact on the issuer's financial performance or condition; and (e) the effectiveness of the issuer's processes for financial reporting and Listing Rule compliance.	No	The Board and the Audit Committee have through the internal auditors, conducted an annual review and considered the followings: (a) The changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment have been considered. (b) The scope and quality of management's ongoing monitoring of risks and of the internal control systems. (c) The ongoing process and detailed monitoring results of the risk management and internal control systems are shared and communicated to the Board annually. (d) No significant control failing or weakness were identified during the period which have had, could have, or may in the future have, a material impact on the Company's financial performance or condition. (e) The Company's processes for financial reporting and Listing Rule compliance have been operating effectively.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
C.2.4 Issuer should disclose, in the Corporate Governance Report, a narrative statement on how it has complied with the risk management and internal control code provisions during the reporting period. In particular, it should disclose: (a) the process used to identify, evaluate and manage significant risks; (b) the main features of the risk management and internal control systems; (c) an acknowledgement by the Board that it is responsible for the risk management and internal control systems and reviewing their effectiveness; (d) the process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects; and (e) the procedures and internal control for the handling and dissemination of inside information.	No	The Board has the ultimate responsibilities for the Group's risk management and internal control systems, which are managed through a number of practices and related policies and procedures established and renewed from time to time which were assessed, on the effectiveness and compliance, from time to time. The internal auditors report directly to the Audit Committee. In addition, internal control systems covering areas in relation to the Group's business nature and activities under the Committee of Sponsoring Organizations of the Treadway Commission framework were adopted. Please refer to section (II) of this Report headed "State of Risk Management and Internal Control" for further details of the Group's risk management and internal control systems and the key process and procedures involved in the respective areas as required to be disclosed in this Report. With respect to procedures and internal controls for the handling and dissemination of inside information, the Group ensure that the inside information of the Group is to be disseminated to public in equal and timely manner in accordance with the applicable laws and regulations.
C.2.5 Issuer should have an internal audit function.	No	The Company has outsourced its internal audit function to an external audit firm, namely Elite Partners CPA Limited.

C.3 Internal control

Principle

The Board should ensure that the issuer maintains sound and effective internal control to safeguard shareholders' investment and the issuer's assets.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
C.3.1	Directors shall at least annually conduct a review of the effectiveness of the issuer's and its subsidiaries' internal control systems and report to shareholders that they have done so in this Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.	No	The Board through the Audit Committee, has conducted periodic reviews of the effectiveness of the Group's system of internal control, which include financial, operational, compliance controls and risk management functions. The Board is of the view that the Group maintains a reasonably sound and effective system of internal control relevant to its level of operations.
C.3.2	The Board's annual review should, in particular, consider the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting and financial reporting function.	No	The periodic reviews of the Board conducted through the Audit Committee as mentioned above have also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

C.4 Audit Committee

Principle

The Board should establish formal and transparent arrangements to consider how it will apply financial reporting and internal control principles and maintain an appropriate relationship with the issuer's Auditors. The Audit Committee established under the Listing Rules should have clear terms of reference.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
C.4.1	Minutes of Audit Committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meetings should be sent to all committee members for their comments and records within a reasonable time after the meeting.	No	Minutes of the Audit Committee meetings are kept by the Company Secretary as Secretary of the Audit Committee. Draft and final versions of minutes of Audit Committee meetings are sent to all committee members for their comments and records within a reasonable time.
C.4.2	A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of its Audit Committee for a period of 1 year from the date of his ceasing: (a) to be partner of the firm; or (b) to have any financial interest in the firm, whichever is later.	No	None of the Directors who served on the Audit Committee during the year under review were former partners of the external auditor.
C.4.3	The Audit Committee's terms of reference should include at least the prescribed specific duties.	No	The terms of reference of the Audit Committee contain at least the specific duties as prescribed by the CG Code in force during the year. Please refer to section (III)(D)(2) of this Report for the principal duties of the Audit Committee.
C.4.4	The Audit Committee should make available its terms of reference by including them on the websites of the Exchange and the issuer.	No	The relevant versions of the terms of reference of the Audit Committee (including its role and functions) are available on the websites of the Exchange and the Company during their respective applicable periods.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
C.4.5	Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer shall include in this Report a statement from the Audit Committee explaining its recommendation and the reasons why the Board has taken a different view.	No	The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming AGM, BDO Limited be re-appointed as the external auditor. The Board endorsed the Audit Committee's recommendation on the re-appointment of the external auditor.
C.4.6	The Audit Committee should be provided with sufficient resources to perform its duties.	No	The Audit Committee is entitled to seek independent professional advice, at the Company's expenses, if it considers necessary in order to perform its duties.
C.4.7	The terms of reference of the Audit Committee should also require it to review arrangements employees of the issuer can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and to act as the key representative body for overseeing the issuer's relations with the external auditor.	No	The terms of reference of the Audit Committee contain at least the specific duties as prescribed by the CG Code in force during the year. Please refer to section (III)(D)(2) of this Report for the principal duties of the Audit Committee.

D. Delegation by the Board

D.1 Management functions

Principle

An issuer should have a formal schedule of matters specifically reserved for Board approval. The Board should give clear directions to Management on the matters that must be approved by it before decisions are made on the issuer's behalf.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
D.1.1	When the Board delegates aspects of its management and administration functions to Management, it must also give clear directions as to the management's powers.	No	The Board delegates management and administration functions to Management as it considers appropriate from time to time, with clear directions as to the Management's powers including circumstances where Management shall report back and obtain prior Board approval.
D.1.2	The issuer should formalize the functions reserved to the Board and those delegated to Management and review those arrangements periodically.	No	There is a formal schedule of matters reserved for the Board's decision, including: (i) Mergers and acquisitions; (ii) Investments and divestments; (iii) Acquisitions and disposals of assets; (iv) Major corporate policies on key area of operations; (v) Acceptances of bank facilities; (vi) Annual budget; (vii) Release of Group's quarterly and full year results; and (viii) Those matters which are likely to have a material impact on the Group's operating units and/or financial position as well as matters other than in the ordinary course of business.
D.1.3	The issuer should disclose the respective responsibilities, accountabilities and contributions of the Board and Management.	No	Please refer to sections (III)(A)(1), (2) and (3) of this Report for the respective responsibilities, accountabilities and contributions of the Board and Management.
D.1.4	Issuers should have formal letters of appointment for Directors who should clearly understand delegation arrangements in place.	No	A formal letter of appointment setting out the key terms and conditions of appointment had been entered into between the Company and individual Directors. Each Director understands the delegation arrangements in place.

D.2 Board Committees

Principle

Board committees should be formed with specific written terms of reference which deal clearly with their authority and duties.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
D.2.1	The Board should give sufficiently clear terms of reference to Board Committees.	No	Clear terms of reference have been adopted for the formal Board Committees of the Company, namely the Audit Committee, the Remuneration Committee and the Nomination Committee.
D.2.2	The terms of reference of Board Committees should require them to report back to the Board on their decisions or recommendations, unless there are legal or regulatory restriction on their ability to do so.	No	This term has been included in the terms of reference of the relevant Board Committees.

D.3 Corporate Governance Functions

Summary of Code Provisions		Any deviations?	Governance practices of the Company
D.3.1	The terms of reference of the Board (or a committee(s) performing the corporate governance functions) should include, as a minimum, the prescribed specific duties.	No	Terms of reference of the Board contain all the specific corporate governance duties as prescribed by the CG Code. Please refer to section (III)(A)(6) of this Report for the principal corporate governance duties of the Board.
D.3.2	The Board should perform or delegate to a committee or committees to perform the prescribed corporate governance duties.	No	The Board is responsible for performing the corporate governance duties as prescribed by the CG Code.

E. Communication with Shareholders

E.1 Effective communication

Principle

The Board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
E.1.1	A separate resolution on each substantially separate issue should be proposed by the Chairman of a general meeting to avoid "bundling" resolutions unless they are interdependent and linked and in such case, the reasons and material implications should be explained in the notice of meeting.	No	A separate resolution is proposed on each substantially separate issue at a general meeting.
E.1.2	Chairman of the Board should attend the annual general meeting and invite the Chairmen of the Audit, Remuneration, Nomination and any other Committees (as appropriate) to attend and in their absence, invite another member of the committee or failing this, his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. Management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.	No	The Chairman had nominated one of the Board members to chair the Company's 2017 AGM pursuant to the Company's Bye-laws. All the Chairman and/or other members of the Audit Remuneration and Nomination Committees and the external auditor of the Company were available to answer questions at the general meeting.
E.1.3	The issuer should arrange for the notice to shareholders to be sent for annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.	No	During the year under review, more than 20 clear business days' notice period had been given for the 2017 AGM.
E.1.4	The Board should establish a shareholders' communication policy and review it regularly to ensure its effectiveness.	No	Shareholders' Communication Policy has been established by the Board and will be reviewed regularly to ensure its effectiveness.

E.2 *Voting by poll*

Principle

The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
E.2.1	The Chairman of a meeting should provide an explanation on the detailed procedures for conducting a poll and answer questions from shareholders on voting by poll.	No	During the year under review, procedures for conducting a poll were properly explained during the Company's general meeting proceedings.

F. Company Secretary

Principle

The Company Secretary plays an important role in supporting the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. The Company Secretary is responsible for advising the Board through the Chairman and/or the Chief Executive on governance matters and should also facilitate induction and professional development of Directors.

Summary of Code Provisions		Any deviations?	Governance practices of the Company
F.1.1	The Company Secretary should be an employee of the issuer and have day-to-day knowledge of the issuer's affairs.	No	The Company Secretary is an employee of the Company and has general knowledge of its affairs.
F.1.2	The Board should approve the selection, appointment or dismissal of the Company Secretary.	No	The selection, appointment or dismissal of the Company Secretary shall be approved by the Board as appropriate at Board meeting, as and when the occasion arises.
F.1.3	The Company Secretary should report to the Board Chairman and/or the Chief Executive.	No	The Company Secretary reports to the Board of Directors on Board matters.
F.1.4	All Directors should have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable law, rules regulations, are followed.	No	All Directors have access to the advice and services of the Company Secretary on Board procedures and corporate governance matters as and when required.

(II) STATE OF RISK MANAGEMENT AND INTERNAL CONTROL

(A) Board responsibilities

The Board, in addition to its statutory responsibilities to protect and enhance long-term shareholders' values, is responsible for the overall performance of the Group. It provides effective leadership, sets the Company's values and standards and ensures that the necessary financial and human resources are in place for the Company to achieve its objectives.

(B) Internal controls

The Board recognises that it is responsible for the overall internal controls framework, but accepts that no cost effective internal control system will preclude all errors and irregularities, as the system is 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 Company does not have a risk management committee. However, Management regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. Management reviews all significant control policies and procedures and highlights all significant matters to the Board and Audit Committee. During the year, the Company's internal auditors were engaged to review the Group's business and operational activities and identify the significant risk areas and to recommend the appropriate measures to mitigate these risks.

The Audit Committee also reviews the effectiveness of the actions taken by Management on the recommendations made by the internal and external auditors and ensures that there are follow-up actions on the implementation. The effectiveness of the internal financial control systems and procedures is monitored by Management.

The Company has outsourced its internal audit function to an external audit firm namely, Elite Partners CPA Limited. The internal audit of the Group covers the review of financial, operational, information technology, compliance controls and risk management functions of the Group. Non-compliance and internal control weaknesses noted during the internal audits and their recommendations thereof are reported to the Audit Committee including Management's responses. The Audit Committee will review these findings and ensure that the recommendations are implemented. The internal auditors will follow up on the implementations in their next audit review.

The internal auditors report directly to the Audit Committee Chairman on internal audit matters and to the CEO on administrative matters.

The Audit Committee is of the view that the internal auditors have adequate resources to perform the internal audit function and have, to the best of their ability, maintained their independence from the audit activities. The Audit Committee reviews the adequacy and effectiveness of the internal audit function annually to ensure that the internal audit resources are adequate and that the internal audits are performed effectively.

The Board has received written assurance from the CEO and CFO that:

(a) the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and

(b) regarding the effectiveness of the Group's risk management and internal control systems.

Based on the internal controls established and maintained by the Group, reviews conducted by the internal auditors, the Board, with the concurrence of the Audit Committee, is of the opinion that the internal controls and risk management system addressing the Group's financial, operational, compliance and information technology risks are sound and effective as at 31 December 2017. Management will continue to focus on improving the standard of internal controls and corporate governance.

The Group's financial risk management is disclosed under Note 37 of the Notes to the Financial Statements on pages 133 to 140 of this Annual Report.

(C) Statement from Directors

Based on the internal controls established and maintained by the Group, reviews conducted by the internal auditors, the Board, with the concurrence of the Audit Committee, is of the opinion that the internal controls and risk management system addressing the Group's financial, operational, compliance and information technology risks are sound and effective as at 31 December 2017. Management will continue to focus on improving the standard of internal controls and corporate governance.

Corporate Governance Report

(III) OTHER INFORMATION

In addition to the information disclosed above, set out below is other information required to be disclosed pursuant to the rules on Corporate Governance Report contained in Appendix 14 to the Listing Rules in force during the year ended 31 December 2017.

(A) Board of Directors

(1) The Board is responsible for the overall performance of the Group. It provides effective leadership, sets the Company's values and standards and ensures that the necessary financial and human resources are in place for the Company to achieve its objectives.

(2) The Board delegates management and administration functions to Management as it considers appropriate from time to time, with clear directions as to the Management's powers including circumstances where Management shall report back and obtain prior Board approval. There is a formal schedule of matters reserved for the Board's decision, including:

   (a) Mergers and acquisitions;

   (b) Investments and divestments;

   (c) Acquisitions and disposals of assets;

   (d) Major corporate policies on key area of operations;

   (e) Acceptances of bank facilities;

   (f) Annual budget;

   (g) Release of Group's interim and full year results; and

   (h) Those matters which are likely to have a material impact on the Group's operating units and/or financial position as well as matters other than in the ordinary course of business.

(3) The Board is collectively responsible for performing the corporate governance duties, including, inter alia, developing, reviewing and monitoring compliance with the Company's policies and practices on corporate governance to ensure that they accord with the appropriate standards for good corporate governance.

(4) The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules in force during the year ended 31 December 2017 as its code of conduct regarding securities transactions by its Directors. Each of the Directors has confirmed, following specific enquiry by the Company, that during the year from 1 January 2017 to 31 December 2017 (both dates inclusive), he has complied with the required standard set out in the Model Code as contained in Appendix 10 of the Listing Rules in force during the said year.

(5) Details of Directors' attendance at the Board, Board Committees and General meetings, held for FY2017 are set out in the table below:

Meetings of	**Board**	**AC**	**NC**	**RC**	**General Meeting**
Total held in 2017	5	3	1	1	2
			Attendance Record		
Executive director					
Fang Yu*	3	N/A	–	N/A	–
Gao Yanxu	5	N/A	1	N/A	1
An Fengjun	5	N/A	N/A	N/A	1
Luo Zhenwu*	3	N/A	N/A	–	–
Wang Yuan*	2	N/A	N/A	N/A	–
Li Wei**	1	N/A	N/A	N/A	–
Dong Yutong*^^	2	N/A	N/A	N/A	–
Non-executive director					
Gao Sishi^	–	N/A	N/A	–	–
Zhang Qi^	1	1	N/A	N/A	–
Naoki Yamada^	–	–	N/A	–	1
Independent Non-executive director					
Lau Choon Hoong	5	3	1	1	2
Song Xuejun*	3	2	–	–	–
Lu Zhiwen*	3	2	–	–	–
Chong Soo Hoon, Sean^	2	1	1	1	2
Yu Chung Leung^	2	1	1	1	2

* Appointed on 19 June 2017
** Appointed on 13 October 2017
^ Resigned on 19 June 2017
^^ Resigned on 13 October 2017

(6) The principal corporate governance functions of the Board include the following:

(a) approve policy initiatives, strategies and financial objectives of the Group and monitor the performance of management of the Company (the "Management"), including the release of financial results and timely announcements of material transactions;

(b) approve annual budgets, major funding proposals, investment and divestment proposals, acquisitions and disposals of assets and convening of shareholders' meetings;

(c) oversee the processes for evaluating the adequacy of internal controls, risk management including financial, operational, information technology and compliance risk areas identified by the Audit Committee that are required to be strengthened for assessment and its recommendation on actions to be taken to address and monitor the areas of concern;

(d) recommend the declaration of dividends;

(e) approve all Board appointments and re-appointments/re-elections as well as appointments of key management personnel;

(f) oversee proper conduct of the Company's business and assume responsibility for corporate governance; and

(g) ensure that the financial statements which give a true and fair view of the Company for each financial period are prepared in accordance with the International Financial Reporting Standards.

(7) During the year 2017, in accordance with the CG Code, the Board has, inter alia:

(a) considered and adopted the risk management framework and program, policy and manual and revised the terms of reference of the Audit Committee accordingly; and

(b) considered and reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report, taking into account the related reports and views of the Board Committees in their respective areas.

(8) All Directors are committed to participate in continuous professional development programmes to update and enhance their knowledge and skills for performing Directors' roles and responsibilities, and would update and confirm to the Company, on a regular basis, the related programmes attended and training received by them. The Company maintains and updates a record of training received by each Director accordingly.

(9) New Directors, on appointment, will be given a comprehensive formal induction covering the Group's businesses and the statutory and regulatory obligations of a Director of a listed company. All Directors are also furnished with continuous updates and briefings on the latest changes or material developments in statutes, the Listing Rules, and corporate governance practices, etc. The updates and briefings covered a broad range of topics including, inter alia, Directors' duties, dealing in securities by Directors, disclosure obligation of inside information, financial information and general information, and rules and regulations relating to notifiable transactions, connected transactions and corporate governance. During the year 2017, all Directors are provided with monthly updates giving a balanced and understandable assessment of the Group's performance, position, recent developments and prospects, where applicable, in sufficient details to keep the Directors abreast of the Group's affairs in order to perform their duties.

(10) Pursuant to the code provision A.6.5 of the Code for the financial year ended 31 December 2017, all Directors had participated in continuous professional development in the following manner:

	Type of trainings
Fang Yu	A, B, C
Gao Yanxu	A, C
An Fengjun	A, C
Luo Zhenwu	A, B, C
Wang Yuan	A, B, C
Li Wei	A, B, C
Lau Choon Hoong	A, B, C
Song Xuejun	A, B, C
Lu Zhiwen	A, B, C

A: attending internal briefing session in relation to corporate governance

B: attending seminars/courses/conference to develop professional skills and knowledge

C: receiving recent changes to the accounting standards and regulatory update and update by CEO on business and strategic developments of the Group

(B) Remuneration Committee

(1) The Remuneration Committee, regulated by a set of written terms of reference, comprises the following Non-executive Directors:

Independent Non-executive Directors
Lu Zhiwen *(Chairman)*
Lau Choon Hoong
Song Xuejun

Executive Director
Luo Zhenwu

(2) The principal duties of the Remuneration Committee include the following:

(a) review and recommend to the Board a framework of remuneration for the Board and key management personnel;

(b) review and recommend the Directors' fees for Non-Executive Directors, which are subject to shareholders' approval at the AGM;

(c) assess, review and recommend the remuneration packages of the Executive Directors, key management personnel and those employees related to the Directors, CEO or Controlling Shareholders of the Company.

(d) review and approve compensation payable to Executive Directors and key management personnel for any loss or termination of office or appointment to ensure that it is consistent with contractual term and is otherwise fair and not excessive;

(e) review the service contract of the CEO and Executive Directors (if any), and letters of appointment of Non-Executive Directors;

(f) recommend to the Board on share option or long term incentive schemes which may be set up from time to time; and

(g) undertake such other functions and duties as may be delegated by the Board.

(3) The Executive Directors' service agreements comprise a salary and a performance bonus to be determined at the discretion of the Board.

The Remuneration Committee had recommended to the Board an amount of RMB499,000 as Directors' fees for the Independent Non-executive Directors for FY2017, taking into account factors such as effort, time spent and responsibilities of the Directors. The Board will table this at the forthcoming AGM for shareholders' approval.

The annual review of the remuneration packages of all Directors and key management personnel was carried out by the Remuneration Committee to ensure that their remuneration commensurate with their duties and responsibilities, performance, qualifications and experience as well as the Company's performance. For FY2017, the Remuneration Committee is satisfied with the remuneration packages of the Executive Directors and key management personnel and recommended the same for Board's approval. The Board had approved the Remuneration Committee's recommendation accordingly.

The Remuneration Committee would also in consultation with Management determine the target profit (the "Target Profit") for each financial year for the Executive Directors to achieve. The Target Profit which refers to the consolidated profit after tax and non-controlling interests (excluding extraordinary and exceptional items), would determine the performance incentive of the Executive Directors. For FY2017, no performance incentive was recommended as the Target Profit was not met.

The Executive Directors and key management personnel of the Group are rewarded based on actual results and no other incentives, the Group does not use any contractual provisions to reclaim incentive components of remuneration from its Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss of the Group.

The objective of the remuneration policies is to ensure that the Directors would be provided with the appropriate incentives to encourage enhanced performance and are, in a fair and reasonable manner, rewarded for their individual contributions to the success of the Group.

Each member of the Remuneration Committee had abstained from voting on any resolutions and making recommendations and/or participating in any deliberations of the Remuneration Committee in respect of his remuneration package or fees.

(4) No Director or any of his associates is involved in deciding his own remuneration.

(5) The breakdown of each individual Director's remuneration, showing the level and mix for FY2017, is as follows:

Name of Director	**Salary**	**Bonus**	**Director's fees**	**Other benefits**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fang Yu*	361	–	2,529	–	2,890
Gao Yanxu	72	–	–	–	72
An Fengjun#	400	–	–	–	400
Luo Zhenwu*	123	–	860	–	983
Wang Yuan*	–	–	61	–	61
Li Wei**	1,762	–	839	–	2,601
Lau Choon Hoong	–	–	167	–	167
Song Xuejun*	–	–	110	–	110
Lu Zhiwen*	–	–	110	–	110
Dong Yutong*^^	9	–	38	–	47
Gao Sishi^	–	–	–	–	–
Zhang Qi^	–	–	–	–	–
Naoki Yamada^	–	–	–	–	–
Chong Soo Hoon, Sean^	–	–	56	–	56
Yu Chung Leung^	–	–	56	–	56

* Appointed on 19 June 2017
** Appointed on 13 October 2017
^ Resigned on 19 June 2017
^^ Resigned on 13 October 2017
\# For FY 2017, the Executive Director, Mr. An Fengjun, voluntarily agreed to waive his entitlement to certain remuneration of approximately RMB220,000.

Details of remuneration (expressed in percentage terms) paid to the top 5 key management personnel of the Group (who are not Directors) for FY2017 are set out below:

Name of key management personnel	Salary	Bonus	Other benefits	Total
	%	%	%	%
Below RMB1,734,000				
Fong William – CFO	100	–	–	100
Liu Xiaoyong – Management director of the healthcare department	100	–	–	100
Gao Yumei – Production Manager	100	–	–	100
Xu Gui Yu – Vice Manager of the Production Department	100	–	–	100
Pang Shumei – Quality Control Manager	100	–	–	100

The total remuneration paid to the top 5 key management personnel amounted to RMB2,958,000 during FY2017.

The Group does not have a share-option or long-term incentive scheme in place.

The emoluments paid or payable to members of senior management under code provision B.1.5 of the CG Code were within the following bands:

	2017 No. of individuals	2016 No. of individuals
Nil to HK$1,000,000 (equivalent to Nil to RMB867,000)	**6**	5
HK$1,000,001 to HK$1,500,000 (equivalent to RMB867,001 to RMB1,301,000)	**–**	–
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,301,001 to RMB1,734,000)	**1**	–

(C) Nomination Committee

(1) The Nomination Committee is regulated by a set of written terms of reference. The majority, including the Nomination Committee Chairman, are Independent Non-Executive Directors. The Nomination Committee Chairman is not associated in any manner with any substantial shareholder of the Company.

The members of the Nomination Committee are as follows:

Independent Non-executive Directors
Song Xuejun *(Chairman)*
Lau Choon Hoong
Lu Zhiwen

Executive Director
Fang Yu

(2) The principal duties of the Nomination Committee include the following:

(a) review and recommend to the Board the structure, size and composition of the Board and Board Committees;

(b) determine the process for selection and appointment of new Directors to the Board;

(c) review nominations for the appointment, including re-appointments/re-elections to the Board, having regard to the Directors' contribution and performance;

(d) ensure that all Directors submit themselves for re-election at regular intervals;

(e) evaluate the performance of the Board as a whole and its Board Committees;

(f) review and evaluate whether or not a Director is able to and has been adequately carrying out his duties as a Director of the Company, having regard to the competing time commitments when serving on multiple Boards;

(g) review on an annual basis the independence of Directors bearing in mind the circumstances set forth in the CG Code and any other salient factors;

(h) review succession plans, in particular, the Chairman and CEO;

(i) oversee the induction, orientation and training for any new and existing Directors; and

(j) undertake such other functions and duties as may be delegated by the Board.

(3) The Nomination Committee will review the performance of each of the Directors and will recommend to the Board if their term of office would be renewed for a further year. The Remuneration Committee will review and recommend to the Board if there were any changes to their existing remuneration packages.

Pursuant to its terms of reference, the Nomination Committee is required to determine if a Director has been adequately carrying out the duties as a Director of the Company, particularly if he has multiple board representations. In view of this, the Nomination Committee having considered the annual written confirmations from all the Non-Executive Directors, concluded that such multiple board representations, if any, do not hinder each Director from carrying out his duties as a Director of the Company. The Board concurred with the Nomination Committee's views.

The Nomination Committee is of the view that putting a maximum limit on the number of listed company board representations is arbitrary, given that time requirements for each company vary, and every individual is made differently, thus one should not be presumptive as sufficiency of time cannot be objectively determined in all situations. The Board and the Nomination Committee are also satisfied that sufficient time and attention have been accorded by these Directors to the affairs of the Company.

In accordance with the Company's Bye-laws, each Director is required to retire at least once in every three years by rotation and all newly appointed Directors will have to retire at the next annual general meeting ("AGM") following their appointments. The retiring Directors are eligible to offer themselves for re-election.

The Nomination Committee, having considered the attendance and participation of the following Directors at Board and Board Committee meetings, in particular, their contributions to the business and operation of the Company as well as Board processes, had recommended to the Board the re-election of these Directors who will be retiring at the forthcoming AGM:

Under Bye-law 86(1):

– Mr. Lau Choon Hoong

Under Bye-law 85(6):

– Mr. Fang Yu
– Mr. Luo Zhenwu
– Mr. Wang Yuan
– Mr. Song Xuejun
– Mr. Lu Zhiwen
– Mr. Li Wei

None of the Directors proposed for re-election at the forthcoming AGM has entered into any service contract with the Company which is not determinable within one year without payment of compensation (other than statutory compensation).

The Board had accepted the Nomination Committee's recommendation and accordingly, the above Directors will be offering themselves for re-election at the forthcoming AGM.

Each member of the Nomination Committee shall abstain from voting on any resolutions and/or participating in deliberation in respect of his re-election as Director. Accordingly, Mr. Song Xuejun, Mr. Lau Choon Hoong, Mr. Lu Zhiwen, Mr. Fang Yu had abstained from voting on any resolutions and making any recommendations/participating in respect of their nomination for re-election as Directors.

An evaluation of the Board performance is conducted annually by the Nomination Committee to assess the effectiveness of the Board as a whole which examines factors such as Board composition, information flow to the Board, Board procedures, Board accountability, and standards of conduct of the Board members.

For the year under review, the Nomination Committee had conducted a Board performance evaluation. The results of the Board performance evaluation were collated and presented to the Nomination Committee for discussion with comparatives from the previous year's results. The Nomination Committee was generally satisfied with the results of the Board performance evaluation for FY2017, which indicated areas of strengths and those that could be improved further. No significant issues were identified. The Nomination Committee had presented the results to Board members who agreed to work on those areas that could be improved further.

The Nomination Committee was of the view that given the small Board size, the cohesiveness of the Board members and that the same Independent Directors sit on the various Board Committees, there would not be any value added in having separate assessments of Board committees.

(D) Audit Committee

(1) The Audit Committee, regulated by a set of written terms of reference, comprises three members, all of whom are Independent Non-executive Directors. The members of the Audit Committee are:

Independent Non-executive Directors
Lau Choon Hoong *(Chairman)*
Song Xuejun
Lu Zhiwen

(2) The Board is of the view that the members of the Audit Committee are appropriately qualified, having the necessary accounting or related financial management expertise or experience as the Board interprets such qualification to discharge their responsibilities:

The principal functions of the Audit Committee are to:

(a) review the quarterly, interim and annual financial statements of the Company before submission to the Board for adoption focusing in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with statutory and regulatory requirements;

(b) review with the external auditors, their scope, audit plans and audit reports as well as any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulation, which has or is likely to have a material impact on the Group's operating results or financial position, and Management's response thereto;

(c) approve the internal and external audit plans and review results of their audits and recommendations as well as Management's responses to the recommendations;

(d) review the assistance given by Management to the internal and external auditors to facilitate their audits and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of Management at least once a year and where necessary);

(e) review and approve the appointment or re-appointment of internal and external auditors and matters relating to resignation or dismissal of the auditors;

(f) ensure that arrangements are in place for staff of the Group and any other persons may, in confidence, raise concerns about possible improprieties in financial reporting or, other matters;

(g) review annually the scope and results of the audit and its cost effectiveness as well as the independence and objectivity of the external auditors, including the volume of non-audit services provided by the external auditors to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors before confirming their nomination;

(h) manage potential conflicts of interests, if any;

(i) undertake such other functions and duties as may be required by the statute or the Listing Manual of the SGX-ST and the Hong Kong Listing Rules;

(j) ensure the adequacy and effectiveness of the Group's internal controls including financial, operational, compliance and information technology controls in order for the Board to provide an opinion on the adequacy of such controls; and

(k) undertake such other functions and duties as may be required by statue or the Listing Manual of the SGX-ST and the Hong Kong Listing Rules.

The Audit Committee has the explicit powers to conduct or authorise investigation into any of the abovementioned matters.

The Audit Committee meets at least four times a year and when deemed appropriate to carry out its functions as sets out under its terms of reference. The Audit Committee has full access to and the co-operation of Management, has full discretion to invite any Directors and executive officers to attend its meetings, and has reasonable adequate resources to enable it to discharge its functions.

(3) Three Audit Committee meetings were held in FY2017 to:

(a) discuss and review the quarterly and annual financial statements of the Company before submission to the Board for adoption;

(b) discuss and review the audit plans and audit reports with the internal and external auditors;

(c) discuss and review the adequacy and effectiveness of the internal controls system and made recommendations to the Board for improvement of internal controls and risk management;

(d) discuss and review the nomination and appointment or re-appointment of internal and external auditors;

(e) meet with the internal and external auditors without the presence of Management to discuss the results of their audit findings and their evaluation of the Group's system of accounting and internal controls, set out in their respective reports;

(f) ascertained that both the internal and external auditors have had the full co-operation of Management in carrying out their work. No non-audit services were rendered by the external auditors in FY2017.

(g) the related party transactions, connected transactions and continuing connected transactions (as defined under the Hong Kong Listing Rules); and

(h) keep abreast of accounting standards and discuss and review issues that could potentially impact financial reporting through quarterly updates and advice from the external auditors;

The Audit Committee has recommended to the Board the nomination of BDO Limited, Certified Public Accountants, Hong Kong as auditor at the forthcoming AGM.

The Board concurred with the Audit Committee's recommendation.

The Audit Committee has also put in place a "whistle-blowing" policy whereby staff of the Group and any other persons may raise concerns on financial improprieties, fraudulent acts or other matters and ensure that arrangements are in place for investigation.

Details of the whistle-blowing policies and arrangements are posted on the Company's website. The website provides a feedback channel for any complainant to raise possible improprieties to the Audit Committee.

There was no incident of whistle-blowing reported for FY2017.

(E) Auditor's Remuneration

The Auditor, BDO Limited, have affirmed their independence in this respect. Audit services and non-audit services rendered by the external auditor amounted to RMB1,630,000 and RMB199,000 respectively.

(F) Shareholders' Rights

At the annual general meetings, the shareholders will be given an opportunity to voice their views and seek clarification from the Directors and members of the senior management.

Procedures for shareholders to convene a special general meeting

In accordance with the Company's Bye-laws, 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 shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Bermuda Companies Act.

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the re-election of the retiring Directors.

All votes of the shareholders at the shareholders' meeting will be taken by poll. Poll results will be posted on the websites of the Company, the SEHK and SGX-ST after the meeting.

Procedures for raising enquiries

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "Corporate Information"of this Annual Report).

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the Company's principal place of business in Hong Kong.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

Procedures and contact details for putting forward proposals at shareholders' meetings

To put forward proposals at a general meeting of the Company, shareholder should lodge a written notice of his/her/its proposal (the "Proposal") with his/her/its detailed contact information to the Company's principal place of business in Hong Kong.

The identity of such shareholder and his/her/its request will be verified with the Company's Hong Kong share registrar and upon confirmation by the Hong Kong share registrar that the request is proper and in order and made by a shareholder of the Company, the Board will determine in its sole discretion whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.

The notice period to be given to all the shareholders of the Company for consideration of the Proposal raised by such shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) Notice of not less than 21 clear days and not less than 20 clear business days in writing if the Proposal requires approval in an annual general meeting;

(2) Notice of not less than 21 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of a special resolution in an extraordinary general meeting; and

(3) Notice of not less than 14 clear days and not less than 10 clear business days in writing if the Proposal requires approval in an extraordinary general meeting other than by way of a special resolution of the Company.

The Group has no significant change in constitutional documents during the year.

(G) Risk Management and Internal Control

The Board is overall responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group established and maintained appropriate and effective risk management and internal control systems.

The Audit Committee reviews the risk management and internal controls that are significant to the Group annually. The Audit Committee would consider the adequacy of resource, qualifications and experience and training of staff and external advisor of the Group's accounting, internal audit and financial reporting function.

The management of the Group is responsible for designing, maintaining, implementing and monitoring of the risk management and internal control system to ensure adequate control in place to safeguard the Group's assets and stakeholder's interest.

The Group has established risk management procedures to address and handle all the significant risks associate with the business of the Group. The Board would perform annual review on any significant change of the business environment and establish procedures to response the risks result from significant change of business environment. The risk management and internal control systems are designed to mitigate the potential losses of the business.

The management would identify the risks associate with the business of the Group by considering both internal and external factors and events which include political, economic, technology, environmental, social and staff. Each of risks has been assessed and prioritised based on their relevant impact and occurrence opportunity. The relevant risk management strategy would be applied to each type of risks according to the assessment results, type of risk management strategy has been listed as follows:

- Risk retention and reduction: accept the impact of risk or undertake actions by the Group to reduce the impact of the risks;

- Risk avoidance: change business process or objective so as to avoid the risk;

- Risk sharing and diversification: diversify the effect of the risk or allocate to different location or product or market; and

- Risk transfer: transfer ownership and liability to a third party.

The internal control systems are designed and implemented to reduce the risks associated with the business accepted by the Group and minimise the adverse impact results from the risks. The risk management and internal control system are design 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.

During 2017, the Group has engaged an external advisory firm to undertake the internal audit function to ensure the effectiveness and efficiency of the risk management and internal control system of the Group. There is no significant deficiency and weakness on the internal control system has been identified by the external advisory firm for the year ended 31 December 2017.

The Board considered that, for the year ended 31 December 2017, the risk management and internal control system and procedures of the Group, covering all material controls including financial, operational and compliance controls and risk management functions were reasonably effective and adequate.

(H) Investor Relations

The Company has an internal investor relations function which focuses on facilitating communications with shareholders and analysts on a regular basis, attending to their queries or concerns and keeping them apprised of the Group's corporate developments and financial performance. During such interactions, the Company solicits and understands the views of shareholders and the investment community.

Environmental, Social and Governance Report

The Group adheres to the core values of "Build together, share together". This report was prepared in accordance with the Environmental, Social, Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This report discloses the Group's performance and progress on environmental, social and governance matters for the year ended 31 December 2017. The Environmental, Social, Governance ("ESG") Report of the Group detailed the policies and compliance status of the laws and regulations relevant to the Group's business and its key stakeholders for the year ended 31 December 2017.

THE GROUP

The Group is one of the largest rabbit and chicken meat producer and processer groups in the PRC. As the one of the leading corporation in the industry, the Group has always promoted its mission as "Creating balance of nutrition, green and healthy food." To reduce the Group's environmental impact and create value in the community, the Group seeks every opportunity to incorporate sustainability standards and practices into all aspects of its business. Also, Management of the Group sees social responsibility as the fundamental duty of the Group to contribute to the society in which it is brought up. The Group believes that this is much more so for a group that participates in activities that help the underprivileged.

A. Environmental

The Group's rabbit and chicken meat business is closely associated with environmental matters and the usage of natural resources. The Group has established a set of management policies and measures on environmental protection and natural resources conservation to help ensure the sustainable operation of the Kangda. By qualifying with ISO 14001, the Group has a successful and systematic framework to manage the immediate and long term environmental impacts of an organization's products, services and processes.

A.1 Emissions

The Group has taken strict control to prevent waste discharge into the air, water and land. It is the Group's policy to maintain the manufacturing process in an efficient and effective manner to reduce the usage of energy and consequently the emissions. The PRC Group are under governed by Environmental Protection of the People's Republic of China Prevention（《中華人民共和國環境保護法》）, Control of Atmospheric Pollution（《中華人民共和國大氣污染防治法》）and Urban Drainage and Sewage Treatment Ordinance（《城鎮排水與污水處理條例》）. The operation of the Group is governed by the Environmental Protection Law of the PRC and the guidelines for the environmental requirement of local government. Any violation of these environmental regulations may result in temporary suspension of production. During the year ended 31 December 2017, the Management of the Group believes that they complied with these environmental regulations.

The main source of the Group's greenhouse gas emissions is derived from direct emission from the mobile combustion sources ("Scope 1"), indirect emission from acquired electricity emissions ("Scope 2") and other indirect emissions ("Scope 3"). The emission of Scope 1 was mainly produced from coal consumption; The emission of Scope 2 was produced from electricity consumption; and the emission of Scope 2 was mainly produced from water consumption. During the year ended 31 December 2017, the total greenhouse gases emissions from Scope 1, Scope 2 and Scope 3 were 2,422 kg, 10,019,600 kg and 283,641 kg respectively.

Emission management

The Management of the Group believes the operations of the Group met the requirements of "discharge standard of pollutants for livestock and poultry breeding"（《畜禽養殖業污染物排放標準》）in respect of discharge of odor associated pollutants. For example, exhaust gas produced from incineration of deceased livestock produces is discharged through a 20-meter-high pipe. Further the Group has implemented the emissions standard requirements in the "Environmental sanitation standard for incineration of medical treatment wastes"（《醫療廢物焚燒環境衛生標準》）. Also, soot and fumes produced during the food processing are discharged through 1.5 meters smoke pipe which is at the top of the building. The Group has implemented "emission standard of cooking fume"（《飲食業油煙排放標準》）in Shandong Province to ensures soot fumes are purified accordingly.

Residue waste management

Livestock excrement is sent to the excrement separator and transported to a corresponding manure fermentation pool for processing. Because feces can be processed into a type of biological fertilizer, the Group has introduced method for the fermentation and rechanneling of waste product in a manner that minimizes harm to the environment. The urine of animals is effectively separated and channeled through a sewage pipe, thereby transferring to a sewage sewage purification treatment pool.

Noise management

The Group has implemented sound-absorbing, sound-insulating, and vibration-reducing measures to reduce noise which is generated from the equipment. The Group has complied the standard under "Emission standard for industrial enterprises noise at boundary"（《工業企業廠界環境雜訊排放標準》）.

Waste management

The Group produced about 35 tons of domestic waste like residue of vegetable and coal and so on. The Group sends domestic waste to Jiaonan City Domestic Garbage Treatment Center for centralized treatment, minimizing the effect of the environment. The Group entrusts qualified disposal waste units to dispose the packaging of immune drugs.

A1.2 Use of resources

The Group would use certain resources in all its activities including food processing, sourcing and procurement. The Group's operation is in line with the national industrial policy. The Group implements the environmental protection measures proposed and the pollutants can reach the standard emission. The Group also makes good use of technology to development the business and reduce the energy consumption, minimizing the pollution of the environment.

The Group has implemented the following policies to reduce the use of resources:

– Use of the best raw materials for production and reduction of waste of materials;

– Reuse materials and papers;

- Rearrange of production schedules to improve the production efficiency to reduce use of resources including energy, labour and raw materials;

- Monitor the production process strictly to reduce errors and reproduction;

- Use energy-saving lights;

- Set reasonable parameters of equipment and use microcomputer to monitor data if the equipment excess standards the equipment will stop in time;

- Use high-quality equipment to avoid leaking water;

- Use machinery for cleaning to minimize water consumption which can save about 30%-50% water consumption; and

- Use shade net to reduce temperature and electricity consumption.

During production and food processing, electricity and coal are our primary direct impact to the environment. For the rabbit and chicken and processed food products in 2017, the Group consumed over 170,000 m3 and 400,000 m3 respectively for the raw materials cleaning, production, sterilization, boiler operation and cooking. The Group's electric consumption was approximately 1,660,000 kWh and 8,350,000 kWh respectively, usuage include machines of production such as lighting system, refrigeration, boiler equipment and etc. The Group's coal consumption for rabbit and chicken and processed food production was approximately 60 tons and 5,000 tons respectively for generating steam engines. In order to reduce the impact on the environment, the Group significantly reduced the amount of coal used, and compared with 2016, the amount of coal consumption reduced by 55 percent so the electricity consumption increased in 2017.

During 2017, the production output of the Group was approximately 5.4 million rabbits and 26 million chickens. The production output of hatchable eggs were 31 million and vegetables were 120 tons. The Group has employed foreign and local experts for the consultation about the production and processing of the rabbit products and has also engaged professional technicians to research and develop the most suitable method for retaining rabbit products' quality.

The Group tries to use the least basic packaging materials to pack the products to facilitate the transportation and maintain the product's quality. The packaging materials are mainly packaging bags and boxes. The total packaging materials used in processed rabbit products were 119 tons; used in chicken products were 507 tons; used in hatchable egg products were 62 tons and used in vegetable products were 0.28 tons. The intensity of packaging material use in processed rabbit products was 0.22 per ten thousand products; used in chicken products was 0.19 per ten thousand products; used in hatchable egg products were 0.02 per ten thousand products and used in vegetable products were 0.0023 per a ton of vegetables.

Apart from the use of resource mention above, there are offices to support the administration work. The electric consumption for offices were approximately 9,600 kWh; the water consumption was 360 m3 and paper used was about 750 kg. The Group will make good use of resources continuously.

A1.3 The environmental and natural resources

To mitigate the impacts on the environment and natural resources, the management of the Group would evaluate and implement policies to reduce the effect, such as controlling and reducing the energy usage of food processing.

In a bid to create a sustainable environment, the Group has implemented a set of energy-saving and efficiency enhancement initiatives. For example the Group has implemented a waste-water processing system, further the Group carries out regular maintenance work to maintain the efficiency of machines.

The Group also strengthens management to prevent biogas from polluting the surrounding area. The Group possesses pollution-prevention facilities during any construction that takes place.

B. Social

As a social responsible enterprise in the PRC, the Group focus on all stakeholders including employees, customers, suppliers, etc. The Group would never forget to contribute to the society.

Employment

The Group is operated in a labor-intensive industry. The Group truly believes the idea of "employees are the most vital assets" for building social sustainable value. During the year ended 31 December 2017, the Group has complied with all relevant labour and employment law and regulations.

Recruitment

At the beginning of every year, each department of the Group is required to set out an organization structure, recruitment budget, regarding the operation goals for the coming year. The management would make regular recruitment (e.g. quarterly). The human resources department staffs would guide the newly joined employees including detail of posts, corporate structure, development strategies and management, motivation scheme, etc. Human resources department would strictly follow the Group's recruitment policy and keep proper records step by step.

Entry/In-the-job of the Group

In order to motivate the employees, the Group provided a package of benefits such as in-house training, severance payment, etc. The Group would mostly recruit its employees through on the open job market or local agents. Management of the Group would ensure their officer would comply with remunerations level set by the local government. It is also the Group's policy to evaluate the performance of all employee annually so that to understand the actual condition as to recommend promotions or salary increment. The Group provides accommodation and canteen near to the manufacturing bases to its workers in the factor.

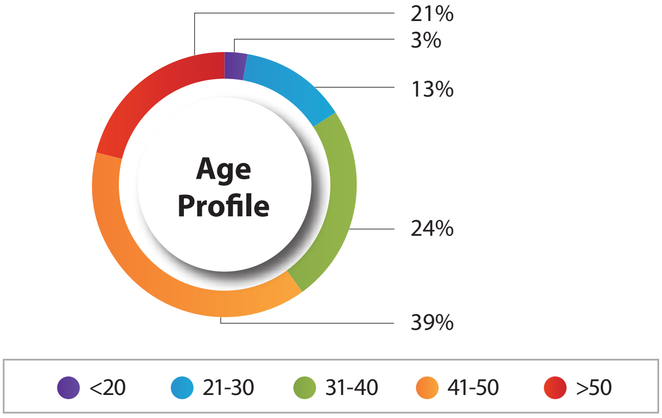
Environmental, Social and Governance Report

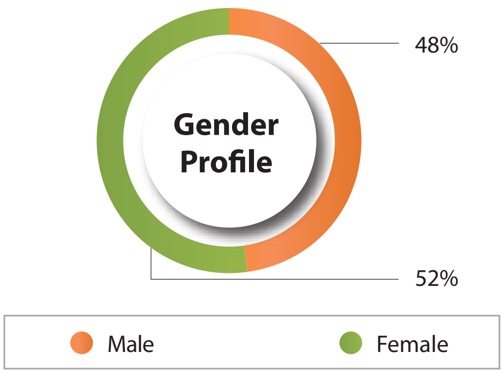
Labour Discipline Management Standard

This standard is made for all workers of the Group in accordance with the PRC labour contract laws and regulations. All workers are required to read the policy before work so they would understand the procedures of the job, segregation of duties, rewards and punishments and so on.

Workplace

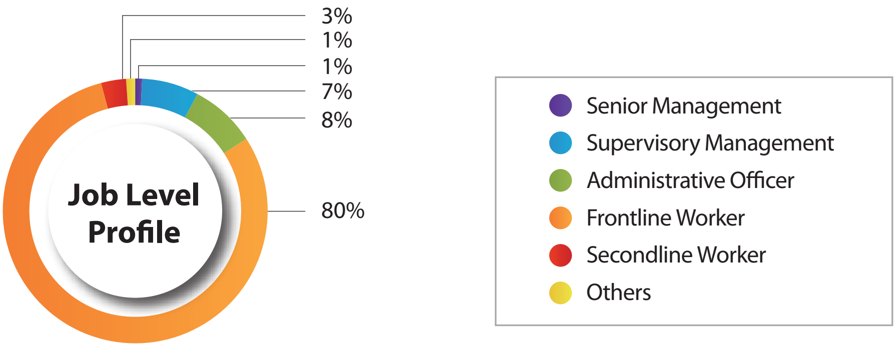
As the end of 2017, the Group employed 4,804 employees. The Group are committed to pursue equal opportunities for all employees, irrespective of personal traits such as age and gender. The Group had no reported incidents of non-compliance with regulations concerning employment during the year.

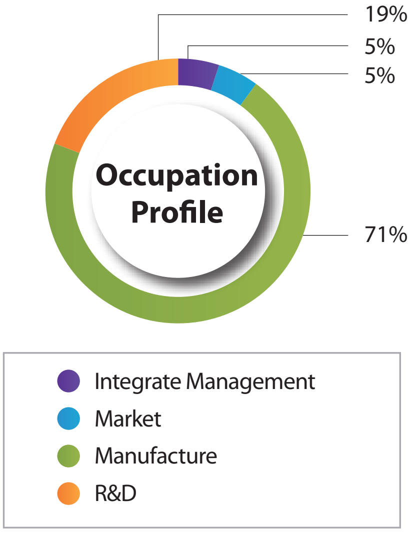


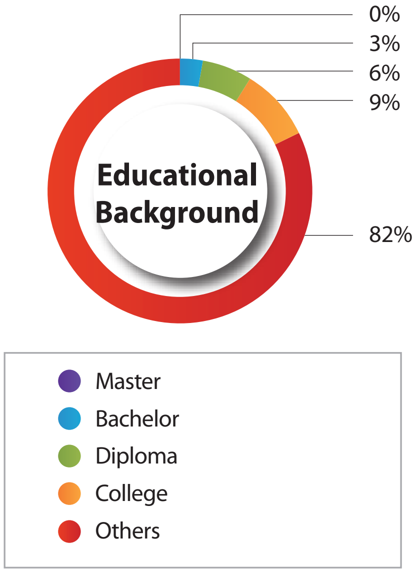


Occupation Profile

Majority of the Group's employees are frontline workers at our manufactories, therefore the Group is considered as a "labour intensive" business. Also, as the majority of the Group's employees is belonged to below-college level (Others), the Group has been providing internal and external training programmes for each staff to ensure that they can understand the job clearly.







Turnover rate

The turnover rate of chicken division is contributed by the relatively shorter employment terms of the frontline workers of the chicken division. Majority of the workers of this division are mobile workforce originated from distanced provinces, and they tend to resign to allow more time for "homecoming" during the Chinese New Year holiday period. The Group understands their need and therefore made a particular policy to work with its employees which is a temporary resignation with those workers until they are ready to work again. The policy can uphold the interests of the Group and workers at the same time but also reduce the turnover rate of the division.

Health and Safety

The Group has put the health and safety of the employees as the priority of productions and every worker who operate factory plants are required to train for how to use the equipment safely. The Group's policy on occupational safety and hygiene management is to "provide a safe and healthy working environment for the employees and avoid occupational hazards".

Factory Sterilizing Policy

The Group concerns about the employees' health and work safety. The Factory Sterilizing Policy is to enhance the workers' hygiene, guarantee the quality of products, so every worker is obligated to follow the procedures whenever they need to enter the workshops or any restricted areas.

The Group has provided a full set of protective clothing for the workers in different division. Also, every worker would pass through a sterilization process when going in/out the area.

Each beginning of year, the Group would provide lecture/training programme for all workers to ensure everyone understands how the sterilization process is done.

Laws and regulations

With respect to occupational safety and hygiene management, the Group has complied with the corresponding local laws and regulations in the region where the relevant factory is located and brand customers' requirements. The Group has implemented management and hazards prevention measures.

The Group's production bases are subject to the Production Safety Law of the PRC and the Regulations on Safety Supervision of Special Equipment. During the year ended 31 December 2017, the Group has complied with the relevant regulations for health and safety.

Work-related injuries and procedure

The Group requires all factories to regularly review the internal safety and hygiene management policy, and establish electronic surveillance system to monitor abnormal incidents and to help focus on major risks.

On the other hand, the Group strictly requests all staffs to equip the wear protection properly which are needed for any purpose or activity during work. During the year ended 31 December 2017, there is no work-related fatalities.

Development and training

The objectives of training and development are to continuously upgrade the quality of manpower and job skills, thereby creating greater corporate value and achieving operational goals and future development. In order to achieve the goals of the Group's training and development, it is essential to consider not only the Group's business vision and objectives, but also the assessment of employees' performance and capability.

According to the Group's training and development policy, the Group trains the employees according to their job level and occupation. For the new employees, the Group provides training for the employees to understand the Group's culture, policies and standards as soon as possible and then help the employees to set up a personal planning fr each of the employees.

For the managers, ensuring stable and rapid development of the company, learning from the production management of excellent enterprises and improving production management system, the Group organizes meeting with different enterprises and provided management training for the managers.

For the specialized quality inspectors, the Group provides knowledge training for them to gain a better understand of ISO9000\ISO14001 environmental management system and ISO22000 Quality management system. In order to improve quality requirements, the Group also provides training about quality control of products.

The Group also provides many trainings, meetings and activities for the employees based on their job level and occupation. Through diversify and different kind of training, the Group believes the training can help to enhance employees' cohesiveness and work efficiency of employees.

Meanwhile, the employees can identify their own personal objectives for development, allowing them to grow along with the Group and become long-term and stable partners of the Group. The Group also encourages the senior management and directors to attend external professional training and provide them leave allowance for training.

Labour Standards

The Group does not hire child labour below the relevant legal threshold of the respective markets. At the time of interview, the human resources department will request the job applicants to produce valid identity document for the verification of actual age of the applicants. The working hours of the employees strictly comply with the local laws and the employees' resting time is always allowed. Overtime pays are in line with local laws and regulations. During the year ended 31 December 2017, no employees of the Group aged under 18 and there is no dispute between the Group and its staffs.

Supply chain management

The Group committed to establishing a comprehensive vertical supply chain management system through supplier screening and management. The objectives are to strengthen the collaborative relationship with the strategic suppliers and to create competitive advantage in the value chain, the Group strives to ensure that their suppliers uphold similar stance in sustainability. The strategic screening mechanism of suppliers can ensure that their performances can meet the Group's requirement. This is important for the development of long-term strategic partnership and the formation of a supply chain management system.

The Group usually guarantees that there are two or more qualified suppliers of raw materials to control stability of supply and ensure the production process is smooth and timely. After receiving raw materials from the suppliers, the Group has specialized quality inspectors to test the quality of the raw materials and the Group prepares test reports for documentation.

In our frontline operations, the Group focuses on environmentally friendly materials such as Forest Stewardship Council ("FSC") paper and recycled plastics. In the PRC, the Group has established proper procedures other than price evaluation. This will also take the provision of follow up services into consideration.

Product responsibility

The Group has put the product and services quality as its first priority as the performance of the products would directly affect the reputation and success of the business and the potential damage for consumers' claim. The Group continually improves its product quality and responds immediately to customers' needs in terms of quality and price so to strengthen the relationship with customers.

By introducing ISO 9001, the Group has been focusing on meeting customer expectations and delivering customer satisfaction.

The products of the Group are subject to the Product Quality Law of the PRC and Law on Protection of the Rights and Interests of Consumers of the PRC which make the Group has the responsibility to refund or compensate for damage caused by the products due to defects.

Anti-Corruption

The Group believes that integrity is one of the vital principles in the operation of its business. A system with good anti-corruption mechanism is the cornerstone for the sustainable and healthy development of the Group. All employees and directors are prohibited from accepting any items with money value over certain amount from co-workers, customers, suppliers, etc. in order to prevent any conflict of interest. Besides, the Group also requires the suppliers to follow the Group's principles on honest transactions. In order to maintain high standard in business integrity, there is no tolerance towards any corruption, fraud, money laundering, bribery in 2017.

Community Investment

Giving back to the society is an important element of the Group's sustainable development strategy. The Group has made certain contribution to charity through expanding its efforts in the areas of charity work. The Group concerns about children education and supports for poor students. The Group provides various funding to general union of Huangdao（黃島區總工會）in order to assist poor students.

The Group internally established a "Love Funds" charity which aim to support our employees with financial difficulties or poor families. Providing our employees free accommodation and allowance of staffs' canteen can definitely help them to build a better living environment.

Financial Contents

Directors' Report

The Directors of the Company herein present their report and audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 35 to the financial statements.

There was no significant change in the nature of the principal activities of the Group during the year.

The business review of the Group for the year ended 31 December 2017, a discussion on the Group's future prospects and an analysis of the Group's performance using key performance indicators are set out in the "Financial Highlights", "Chairman's Statement" and "Management Discussion and Analysis" on pages 1 to 2, pages 3 to 4 and pages 10 to 17 respectively of this Annual Report.

PRINCIPAL RISKS AND UNCERTAINTIES

Many economic experts closely monitor whether the global and China economy growth will slow down in coming years. The Group's sales of traditional business such as the food products may be under uncertainties if the consumer market downturn exists. It is the reason that the Group started broadening the products range and sales channels of the Group and upgrading the current facilities a few years ago, aiming to diversify the risk of over reliance on any single business segment.

In the past few years, labour cost in the PRC continuously increased and the production-oriented entities in the PRC were facing the increasing pressure of higher production cost. The Group will apply more resources in establishing production automation system in order to reduce manpower per production unit.

Please refer to note 37 to the consolidated financial statements for other risks and uncertainties.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group continues to update the requirements of the relevant environmental laws and regulations applicable to it to ensure compliance. The Group does not produce material waste nor emit material quantities of pollutants during its production process. During the year under review, the Group has complied with the relevant environmental laws and regulations applicable to it in all material respects, including permit requirements.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group continues to update the requirement of the relevant laws and regulations in various countries, particularly in the PRC, applicable to it to ensure compliance. All of the Group's assets are located in the PRC and the Group's revenue is mainly derived from operations in the PRC. The Company's shares are primary listed on the Main Board of the Stock Exchange of Hong Kong Limited and the listing status in the Main Board of the Singapore Exchange Securities Trading Limited was changed from primary listing to secondary listing with effect from 23 January 2017. During the year under review, the Group complied with the relevant laws and regulations in various countries applicable to it in all material respects.

ACCOUNT OF THE GROUP'S KEY RELATIONSHIPS

(i) Employees

The Group offers a comprehensive range of staff facilities and fringe benefits to attract, retain and motivate employees. Key personnel have been part of the management team since the inception of business. During the year under review, the Group considered the relationship with employees was well and the turnover rate is acceptable.

(ii) Suppliers

The Group's suppliers mainly include raw material suppliers. All key suppliers have a close and long term relationship with the Group. During the year under review, the Group considered the relationship with its suppliers was well and stable.

(iii) Customers

The Group sells products directly to customers. The Group maintains a very good relationship with all the customers.

RESULTS AND APPROPRIATION

The financial performance of the Group for the year ended 31 December 2017 and the financial position of the Group as at that date are set out in the financial statements on pages 81 to 143.

The Board of Directors (the "Board") did not recommend any dividend for the year ended 31 December 2017.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements is set out below. The summary does not form part of the audited financial statements.

	Year ended 31 December				
RESULTS	**2017 RMB'000**	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	**1,335,667**	1,262,785	1,226,448	1,302,632	1,477,999
(Loss)/Profit before tax	**(9,464)**	9,796	(20,743)	5,191	15,906
Income tax expense	**(3,290)**	(2,247)	(5,262)	(12,292)	(14,797)
(Loss)/Profit for the year	**(12,754)**	7,549	(26,005)	(7,101)	1,109
Other comprehensive income	**–**	–	–	–	–
Exchange differences in translating foreign operation	**410**	–	–	–	–
Total comprehensive income for the year	**(12,344)**	7,549	(26,005)	(7,101)	1,109
(Loss)/Profit for the year attributable to:					
Owners of the Company	**(15,783)**	6,295	(28,060)	(3,956)	6,378
Non-controlling interests	**3,029**	1,254	2,055	(3,145)	(5,269)
	(12,754)	7,549	(26,005)	(7,101)	1,109

ASSETS AND LIABILITIES	As at 31 December **2017** **RMB'000**	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Non-current assets	**958,514**	1,003,985	1,023,473	829,805	853,934
Current assets	**728,154**	725,145	824,633	885,317	738,848
TOTAL ASSETS	**1,686,668**	1,729,130	1,848,106	1,715,122	1,592,782
Current liabilities	**961,008**	992,806	1,107,033	943,598	819,028
Non-current liabilities	**59,471**	57,791	70,089	74,535	69,664
TOTAL LIABILITIES	**1,020,479**	1,050,597	1,177,122	1,018,133	888,692
NET ASSETS	**666,189**	678,533	670,984	696,989	704,090

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group are set out in note 14 to the financial statements.

BIOLOGICAL ASSETS

The production quantities of agricultural produce of rabbits, chicken, hatchable eggs and vegetables for the year ended 31 December 2017 are as follows:

	Group 2017
Rabbits	**5,384,833**
Chicken	**26,004,008**
Hatchable eggs	**31,048,663**
Vegetables (in tonnes)	**120**

Details of the movement in biological assets of the Group are set out in note 18 to the financial statements.

INTEREST-BEARING BANK BORROWINGS

Particulars of interest-bearing bank borrowings of the Group as at 31 December 2017 are set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

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

Directors' Report

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 84 of the Annual Report and note 33 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the provision of laws of Bermuda, amounted to approximately RMB263,216,000 (2016: approximately RMB263,216,000). The balance of approximately RMB257,073,000 (2016: approximately RMB257,073,000) in the share premium account may be distributed in the form of fully paid bonus shares.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares during the year (in 2016: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30% of the Group's revenue and less than 25% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers, respectively.

As at 31 December 2017, none of the Directors, their close associates or any Shareholder (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in any of the five largest customers and/or suppliers of the Group.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:
Mr. Fang Yu[1] *(Chief Executive Officer & Chairman)*
Mr. An Fengjun[2]
Mr. Gao Yanxu[3]
Mr. Wang Yuan[9]
Mr. Luo Zhenwu[10]
Ms. Dong Yutong[13]
Mr. Li Wei[14]

Non-executive Directors:
Mr. Zhang Qi[4]
Mr. Naoki Yamada[5]
Mr. Gao Sishi[8]

Independent Non-executive Directors:
Mr. Lau Choon Hoong
Mr. Chong Soo Hoon, Sean[6]
Mr. Yu Chung Leung[7]
Mr. Song Xuejun[11]
Mr. Lu Zhiwen[12]

1 Appointment of Mr. Fang Yu as the chairman, the chief executive officer, the executive director and a member of the nomination committee on 19 June 2017.

2 Resignation of Mr. An Fengjun as the chief executive officer on 19 June 2017.

3 Resignation of Mr. Gao Yanxu as a member of nomination committee on 19 June 2017.

4 Resignation of Mr. Zhang Qi as the non-executive director and a member of the audit committee on 19 June 2017.

5 Resignation of Mr. Naoki Yamada as the non-executive director and a member of each of the audit committee and remuneration committee on 19 June 2017.

6 Resignation of Mr. Chong Soo Hoon, Sean as the independent non-executive director, the chairman of the nomination committee and a member of each of the audit committee and remuneration committee on 19 June 2017.

7 Resignation of Mr. Yu Chung Leung as the independent non-executive director, the chairman of the remuneration committee and a member of each of the audit committee and nomination committee on 19 June 2017.

8 Resignation of Mr. Gao Sishi as the chairman, non-executive director and a member of the remuneration committee on 19 June 2017.

9 Appointment of Mr. Wang Yuan as the executive directors on 19 June 2017.

10 Appointment of Mr. Luo Zhenwu as the executive director and a member of the remuneration committee on 19 June 2017.

11 Appointment of Mr. Song Xuejun as the independent non-executive director, the chairman of the nomination committee and a member of each of the audit committee and remuneration committee on 19 June 2017.

12 Appointment of Mr. Lu Zhiwen as the independent non-executive director, the chairman of the remuneration committee and a member of each of the audit committee and nomination committee on 19 June 2017.

13 Appointment and resignation of Ms. Dong Yutong as the executive directors on 19 June 2017 and on 13 October 2017 respectively.

14 Appointment of Mr. Li Wei as the executive directors on 13 October 2017.

Directors' Report

In accordance with the Company's Bye-Laws, the following Directors shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election at the Annual General Meeting:

Under Bye-law 86(1):

– Mr. Lau Choon Hoong

Under Bye-law 85(6):

– Mr. Fang Yu

– Mr. Luo Zhenwu

– Mr. Wang Yuan

– Mr. Song Xuejun

– Mr. Lu Zhiwen

– Mr. Li Wei

The Company has received annual confirmations of independence from each of its Independent Non-executive Directors and considers Mr. Lau Choon Hoong, Mr. Song Xuejun and Mr. Lu Zhiwen to be independent under Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

Biographical details of the Directors and the senior management of the Group are set out on pages 5 to 8 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Each of Mr. Fang Yu, Mr. Luo Zhenwu, Mr. Wang Yuan, Mr Li Wei, Mr. Gao Yanxu and Mr. An Fengjun has entered into service contracts (the "ED Service Contracts") with the Company, and the respective duration of appointment are as follows:

Mr. Fang Yu – 19 June 2017 to 18 June 2018
Mr. Luo Zhenwu – 19 June 2017 to 18 June 2018
Mr. Wang Yuan – 19 June 2017 to 18 June 2018
Mr. Li Wei – 13 October 2017 to 12 October 2018
Mr. Gao Yanxu – 26 August 2017 to 25 August 2018
Mr. An Fengjun – 11 March 2018 to 10 March 2019

The appointment of each of Mr. Fang Yu, Mr. Luo Zhenwu, Mr. Wang Yuan, Mr Li Wei, Mr. Gao Yanxu and Mr. An Fengjun may be terminated by either party giving not less than one month's notice in writing to the other or in accordance with the terms of the ED Service Contracts.

Under the ED Service Contracts, each of Mr. Fang Yu, Mr. Luo Zhenwu, Mr. Wang Yuan, Mr Li Wei, Mr. Gao Yanxu and Mr. An Fengjun is entitled to a fixed fee of HK$5,000,000 per year, HK$1,700,000 per year, HK$120,000 per year, HK$4,500,000 per year, nil and RMB400,000 per year respectively, and such fees will be reviewed annually by the Remuneration Committee.

Each of Mr. Gao Yanxu and Mr. An Fengjun is also entitled to a management bonus by reference to the consolidated profits after taxation and non-controlling interests (excluding extraordinary and exceptional items) ("Net Profits") as the Board may approve provided that the aggregate amount of management bonuses payable to all Executive Directors in respect of any financial year of the Group shall not exceed 10 percent of the Net Profits for the relevant financial year.

Independent Non-executive Directors

Mr. Lau Choon Hoong has signed re-appointment letters (the "INED Re-Appointment Letters") with the Company, for a one-year term from their date of appointment. Their respective INED Appointment Letters can be terminated by either party giving not less than one month's notice in writing to the other or in accordance with the terms of the appointment letter.

Under the INED Appointment Letter, Mr. Lau Choon Hoong are each entitled to a remuneration of RMB10,000 from 1 January 2017 to 18 June 2017 and HK$20,000 per month from 19 June 2017 to 31 December 2017 (subject to the approval of the Shareholders).

Mr. Song Xuejun and Mr. Lu Zhiwen has signed appointment letters with the Company for a year up to 18 June 2018 unless otherwise terminated by either party giving not less than one month's notice in writing to the other or in accordance with the terms of the appointment letter. Under the appointment letter, Mr. Song Xuejun and Mr. Lu Zhiwen are entitled to a remuneration of HK$20,000 per month.

CONTRACTS OF SIGNIFICANCE

Save as those disclosed in the sub-sections headed "Directors' Service Contracts" above and note 40 to the financial statements, none of the Directors of the Company, the controlling shareholders and/or their respective associates has a significant interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, any of its subsidiaries was a party during the year under review.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

During and at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY UNDER THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571) OF THE LAWS OF HONG KONG (THE "SFO")

As at 31 December 2017, the interests of the Directors and Chief Executive in the share capital of the Company or Associated Corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

	Long positions in the shares of the Company					
Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Percentage (%)
Gao Sishi*	–	–	–	–	–	–
An Fengjun	–	–	–	–	–	–
Gao Yanxu	–	–	–	–	–	–
Zhang Qi**	–	–	–	–	–	–
Fang Yu	–	–	–	–	–	–
Luo Zhenwu	–	–	–	–	–	–
Dong Yutong****	–	–	–	–	–	–
Wang Yuan	–	–	–	–	–	–
Naoki Yamada**	–	–	–	–	–	–
Chong Soo Hoon, Sean***	–	–	–	–	–	–
Lau Choon Hoong	–	–	–	–	–	–
Yu Chung Leung***	–	–	–	–	–	–
Lu Zhiwen	–	–	–	–	–	–
Song Xuejun	–	–	–	–	–	–
Li Wei	–	–	–	–	–	–
	–	–	–	–	–	–

* Mr. Gao Sishi had resigned as chairman and non-executive director on 19 June 2017.

** Mr. Zhang Qi and Mr. Naoki Yamada had resigned as non-executive director on 19 June 2017.

*** Mr. Chong Soo Hoon, Sean and Mr. Yu Chung Leung had resigned as independent non-executive director on 19 June 2017.

**** Ms Dong Yutong had resigned as executive director on 13 October 2017.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

Name of Director	Held in Name of Director 31/12/2017	Deemed Interest 31/12/2017
Gao Sishi*	–	–
An Fengjun	–	–
Gao Yanxu	–	–
Zhang Qi**	–	–
Fang Yu	–	–
Luo Zhenwu	–	–
Dong Yutong****	–	–
Wang Yuan	–	–
Naoki Yamada**	–	–
Chong Soo Hoon, Sean***	–	–
Lau Choon Hoong	–	–
Yu Chung Leung***	–	–
Lu Zhiwen	–	–
Song Xuejun	–	–
Li Wei	–	–
	–	–

* Mr. Gao Sishi had resigned as chairman and non-executive director on 19 June 2017.

** Mr. Zhang Qi and Mr. Naoki Yamada had resigned as non-executive director on 19 June 2017.

*** Mr. Chong Soo Hoon, Sean and Mr. Yu Chung Leung had resigned as independent non-executive director on 19 June 2017.

**** Ms Dong Yutong had resigned as executive director on 13 October 2017.

SUBSTANTIAL SHAREHOLDERS' INTERESTS UNDER THE SFO

As at 31 December 2017, insofar as is known to the Directors and Chief Executive of the Company, the following persons (not being a Director or Chief Executive of the Company), had an interest and short position in the shares and underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as follows:

In respect of the Company

Name of Substantial Shareholder (Note 1)	**Capacity/nature of interests**	**Number of Shares held** (Note 1)	**Approximate percentage of issued share capital** (%)
China Tian Yuan Manganese Limited (Note 2)	Registered and beneficial owner	300,740,000	69.46%

Notes:

1. Information was provided by substantial shareholder.

2. China Tian Yuan Manganese Limited is a wholly owned subsidiary of NingXia Tianyuan Manganese Industry Co., Ltd, a corporation controlled by Mr. Jia Tianjiang. By virtue of the SFO, NingXia Tianyuan Manganese Industry Co., Ltd, Mr. Jia Tianjiang and his spouse, Ms. Dong Jufeng are deemed to be interested in the 300,740,000 shares of the Company held by China Tian Yuan Manganese Limited.

Save as disclosed above, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as at 31 December 2017, which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 19 to 54 of the Annual Report.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Group has entered into the following continuing connected transactions and connected transactions as defined under the Hong Kong Listing Rules. These continuing connected transactions and connected transactions between certain connected persons (as defined in the Hong Kong Listing Rules) and the Group also constituted certain related party transactions as disclosed in note 40 to the financial statements.

- The Group entered into 7 lease agreements dated between 1 January 2005 to 1 January 2010 either as tenant (collectively the "Lease Agreements") with a connected person (as defined under the Hong Kong Listing Rules), KD Trading Company, with annual rent ranging from RMB6,240 to RMB200,000. The terms of the Lease Agreements will expire between 15 December, 2015 and 31 December 2024 respectively. The total amount of rent paid by the Group for the year ended 31 December 2017 amounted to approximately RMB480,000 as disclosed in note 40 to the financial statements.

- The total amount of sales to and purchase from KD Trading Company, of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi have beneficial interests, for the year ended 31 December 2017 amounted to approximately RMB2,380,000 and nil respectively.

- On 27 January 2015, the Company entered into a framework agreement with Zensho Holdings Co., Ltd ("Zensho"), pursuant to which the Company agreed that the Group will sell and supply to the Zensho and its subsidiaries and associates (collectively known as the "Zensho Group"), and Zensho agreed that the Zensho Group will purchase from the Group directly. This arrangement may provide the Group with greater flexibility relating to price negotiation with the Zensho Group and allow the Group to sell the products to the Zensho Group at prices higher than that to the sourcing company and therefore can improve the profit margins of the relevant products. The annual caps for the products sales by the Group to Zensho Group under the framework agreement for 2015, 2016 and 2017 are RMB110 million, RMB120 million and RMB130 million respectively.

- The guarantees given by KD Trading Company in connection with the bank loans granted to the Group for the year ended 31 December 2017 amounted to approximately RMB1,282,400,000.

- The Group disposed certain property, plant and equipment with a carrying amount of RMB4,713,000 to KD Trading Company at a consideration of RMB6,500,000.

Regarding the continuing connected transactions with Zensho Group, the Company has applied for, and the SEHK has granted, a waiver with regard to the framework agreement and the continuing connected transactions ("Transactions") contemplated thereunder for the period commencing on 1 January 2015 to the year ending 31 December 2017 from strict compliance with the announcement (but not reporting) and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules, provided that the above-mentioned continuing connected transactions are conducted in compliance with the conditions (including the respective proposed cap amounts) imposed by the SEHK. Given that Zensho sold 52,295,000 Shares to China Tian Yuan Manganese Limited according to the Share Purchase Agreement and completion took place on 4 May 2017, the Zensho Group is not a connected person as at 31 December 2017.

The Independent Non-executive Directors of the Company have reviewed the Transactions conducted during the year and confirmed that the Transactions:

(i) have been entered into in the ordinary and usual course of the business of the Group;

(ii) have been entered into either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties;

(iii) have been entered into in accordance with the relevant agreements on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) have not exceeded the annual cap for the year ended 31 December 2017 as disclosed in the framework agreement.

In accordance with paragraph 14A.56 of the Hong Kong Listing Rules, the Board engaged BDO Limited, the auditor of the Company, to perform certain factual finding procedures on the Transactions under the above framework agreement on a sample basis in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported their factual findings for the selected samples based on the agreed procedures to the Board. Based on the work performed, the auditor of the Company has issued to the Board an unqualified letter with its following conclusions in relation to the Continuing Connected Transactions with Zensho Group disclosed by the Group on page 73 of the Annual Report: (a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors; (b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group; (c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (d) with respect to the aggregate amount of the Continuing Connected Transactions with Zensho Group, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company. A copy of the auditor's said letter has been provided by the Company to the Stock Exchange.

The Company confirms that the Group has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules, save as the aforesaid, there were no other transactions which need to be disclosed as connected transactions or continuing connected transactions in accordance with the requirements under the Hong Kong Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. Gao Yanxu and Mr. An Fengjun are directly and indirectly interested in KD Trading Company, which is principally engaged in diversified businesses, including trading of construction materials, fresh vegetables, animal feeds and property management. Mr. Gao Yanxu is the nephew of Mr. Gao Sishi. Mr. Gao Sishi had resigned as chairman and non-executive Director of the Company on 19 June 2017.

KD Trading Company is a company established in the PRC and is owned by Mr. Gao Sishi as to 40%, Mr. Gao Yanxu as to 5.3% and Mr. An Fengjun as to 1.3%. Apart from its principal business of construction materials trading, KD Trading Company is also engaged in the sales of processed food products to a target group of customers who are its business partners. The Directors understand that KD Trading Company will continue to purchase processed food products for self-consumption, including making of gift packages to be gifted to others at nil consideration but does not intend to sell any processed food products in the future. As such, the Directors are of the view that there is no competition with KD Trading Company.

Save as disclosed above, during the year and up to the date of this report, none of the Directors are considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors have been appointed or were appointed as Directors to represent the interests of the Company and/or the Group. The Directors are not aware that any KD Trading Company member had any actual operation in food processing business during the year and up to the date of this report. The Directors also are not aware that any KD Trading Company member plans to engage in food processing business which may compete with the business of the Group in the near future. As the Group is principally engaged in the production and sales of chicken meat, rabbit meat and processed foods which are distinct from the businesses of KD Trading Company, the Directors are of the view that the businesses of KD Trading Company do not compete or are unlikely to compete directly or indirectly with the Group's business.

Directors' Report

MANAGEMENT CONTRACT

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 financial year.

PERMITTED INDEMNITY

The Company's Bye-Laws provides that each Director of the Company shall be entitled to be indemnified out of the assets 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 his/her duty. In addition, the Company has maintained directors' liability insurance throughout the financial year, which provides appropriate covers for the Director.

SUFFICIENCY OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public (as defined in the Hong Kong and Singapore Listing Rules and the Listing Manual of the Singapore Securities Exchange Trading Limited) as at the date of this report.

AUDIT COMMITTEE, NOMINATION COMMITTEE AND REMUNERATION COMMITTEE

Details of the Company's Audit Committee, Nomination Committee and Remuneration Committee are set out in the Corporate Governance Report in pages 19 to 54 of the Annual Report.

AUDITORS

BDO Limited, Certified Public Accountants, ("BDO") was re-appointed on 19 June 2017 as auditor. Save as below, there is no change in the auditors of the Company in any of the preceding three years. Given that the Company is no longer required to comply with Rule 712(2) and 715(1) of the Listing Manual of SGX-ST, the Company did not re-appoint BDO LLP, Singapore as one of its joint auditors and BDO LLP, Singapore ceased to be one of its joint auditors with effect from 29 March 2017.

BDO retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming Annual General Meeting of the Company to the appointment of BDO as auditors of the Company to satisfy the Hong Kong Listing Rules for the ensuing year until the next Annual General Meeting in 2018.

On behalf of the Board

Fang Yu
Chief Executive Officer and Chairman

Gao Yanxu
Executive Director

28 March 2018

Statement by the Directors

We, Fang Yu and Gao Yanxu, being two of the Directors of China Kangda Food Company Limited, do hereby state that, in the opinion of the Directors,

(i) the accompanying Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows of the Group, together with the notes thereto, are drawn up in accordance with International Financial Reporting Standards so as to give a true and fair view of the financial position of the Group as at 31 December 2017 and of the financial performance of the business, changes in equity and cash flows of the Group for the year then ended; and

(ii) as at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The financial statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors on the date stated hereunder.

Fang Yu
Chief Executive Officer and Chairman

Gao Yanxu
Executive Director

28 March 2018

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CHINA KANGDA FOOD COMPANY LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Kangda Food Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 81 to 143, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, 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") 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 International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the "Code of Ethics for Professional Accountants" (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 3(b) in the consolidated financial statements, which indicates that the Group incurred a loss attributable to the owners of the Company of approximately RMB15.8 million during the year ended 31 December 2017, and as of that date, the Group's current liabilities exceeded its current assets by approximately RMB232.9 million as at 31 December 2017. As stated in note 3(b), these conditions, along with other matters as set forth in note 3(b), 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.

Impairment assessment of goodwill and other non-financial assets

(Refer to notes 14, 15 and 17 to the financial statements and the accounting policies as set out in notes 4(d), 4(e) and 4(l) to the financial statements)

As at 31 December 2017, the Group had goodwill of RMB56.4 million, property, plant and equipment of RMB118.9 million and prepaid premium for land leases of RMB20.2 million relating to a cash-generating unit ("CGU") within the Group. The CGU is tested for impairment annually and no impairment losses had been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2017.

Management has appointed an independent valuation firm to carry out the assessments. Management and the independent valuation firm are required to make judgements when estimating recoverable amounts of the CGU, including (i) producing future cash flow forecasts with appropriate assumptions; and (ii) selecting and applying appropriate key inputs such as discount rates.

Our responses

Our procedures in relation to management's impairment assessments included:

– assessing the valuation methodologies used;

– evaluating the independent valuation firm's competence, capabilities and objectivity;

– reviewing and challenging the reasonableness of key assumptions and critical judgement areas which underpin the calculations; and

– checking the accuracy and the relevance of the input data used.

Valuation of biological assets

(Refer to note 18 to the financial statements and the accounting policies as set out in note 4(u) to the financial statements)

As at 31 December 2017, the Group had biological assets with a fair value of RMB74.8 million. Management appointed an independent valuation firm to estimate fair values of the biological assets (except vegetables) using a market approach with reference to the market-determined prices with similar size, species, age and weight.

Our responses

Our procedures in relation to management's fair value estimations of biological assets (except vegetables) included:

– assessing the valuation methodologies used by management and the independent valuation firm;

– evaluating the independent valuation firm's competence, capabilities and objectivity;

– reviewing and challenging the reasonableness of key assumptions and critical judgement areas which underpin the fair value estimations; and

– checking the accuracy and the relevance of the input data used.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, 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 auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

From the matters communicated with the directors, 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 auditor's 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.

BDO Limited
Certified Public Accountants
Wong Kwok Wai
Practising Certificate Number P06047

Hong Kong, 28 March 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	7	**1,335,667**	1,262,785
Cost of sales		**(1,225,438)**	(1,161,209)
Gross profit		**110,229**	101,576
Other income and other gains	7	**30,624**	61,370
Selling and distribution costs		**(34,370)**	(34,648)
Administrative expenses		**(58,471)**	(49,097)
Other operating expenses		**(26,325)**	(18,870)
Impairment loss on property, plant and equipment		**–**	(11,332)
Profit from operations	8	**21,687**	48,999
Finance costs	9	**(30,891)**	(39,203)
Share of loss of associate		**(260)**	–
(Loss)/Profit before taxation		**(9,464)**	9,796
Income tax expense	10	**(3,290)**	(2,247)
(Loss)/Profit for the year		**(12,754)**	7,549
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences in translating foreign operations		**410**	–
Other comprehensive income for the year		**410**	–
Total comprehensive income for the year		**(12,344)**	7,549
(Loss)/Profit for the year attributable to:			
Owners of the Company		**(15,783)**	6,295
Non-controlling interests		**3,029**	1,254
		(12,754)	7,549
Total comprehensive income for the year attributable to:			
Owners of the Company		**(15,373)**	6,295
Non-controlling interests		**3,029**	1,254
		(12,344)	7,549
(Loss)/Profit per share for (loss)/profit attributable to the owners of the Company during the year	12		
Basic (RMB cents)		**(3.65)**	1.45
Diluted (RMB cents)		**(3.65)**	1.45

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**747,750**	791,703
Prepaid premium for land leases	15	**112,231**	116,555
Interests in associates	16	**2,740**	–
Goodwill	17	**56,778**	56,778
Biological assets	18	**30,898**	31,435
Available-for-sale financial assets	19	**–**	–
Deferred tax assets	20	**1,591**	1,373
Deposits for property, plant and equipment		**6,526**	6,141
Total non-current assets		**958,514**	1,003,985
Current assets			
Biological assets	18	**43,866**	47,867
Inventories	21	**171,039**	125,796
Trade and bills receivables	22	**98,095**	92,513
Prepayments, other receivables and deposits	23	**42,308**	71,779
Amount due from a former subsidiary	24	**–**	686
Pledged deposits	25	**40,460**	102,345
Cash and cash equivalents	25	**332,386**	284,159
Total current assets		**728,154**	725,145
Current liabilities			
Trade and bills payables	26	**263,535**	308,571
Accrued liabilities and other payables	27	**128,359**	119,751
Interest-bearing bank borrowings	28	**525,319**	529,000
Amount due to a related party	29	**38,269**	32,166
Deferred government grants	30	**2,932**	2,777
Tax payables		**2,594**	541
Total current liabilities		**961,008**	992,806
Net current liabilities		**(232,854)**	(267,661)
Total assets less current liabilities		**725,660**	736,324
Non-current liabilities			
Deferred government grants	30	**21,500**	20,701
Interest-bearing bank borrowings	28	**20,000**	30,000
Other borrowing	31	**11,760**	–
Deferred tax liabilities	20	**6,211**	7,090
Total non-current liabilities		**59,471**	57,791
Net assets		**666,189**	678,533

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
EQUITY			
Equity attributable to the Company's owners			
Share capital	32	**112,176**	112,176
Reserves	33	**522,884**	538,257
		635,060	650,433
Non-controlling interests		**31,129**	28,100
Total equity		**666,189**	678,533

Fang Yu
Director

Gao Yanxu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Equity attributable to the Company's owners								Non-controlling interests	Total equity
	Share capital	Share premium*	Merger reserve* (note 33)	Capital redemption reserve* (note 33)	Other reserves* (note 33)	Foreign currency translation reserve*	Retained profits*	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	112,176	257,073	(41,374)	2,374	46,797	–	267,092	644,138	26,846	670,984
Profit for the year	–	–	–	–	–	–	6,295	6,295	1,254	7,549
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	–	6,295	6,295	1,254	7,549
Transfer to other reserves	–	–	–	–	1	–	(1)	–	–	–
At 31 December 2016 and 1 January 2017	112,176	257,073	(41,374)	2,374	46,798	–	273,386	650,433	28,100	678,533
Loss for the year	–	–	–	–	–	–	(15,783)	(15,783)	3,029	(12,754)
Other comprehensive income	–	–	–	–	–	410	–	410	–	410
Total comprehensive income for the year	–	–	–	–	–	410	(15,783)	(15,373)	3,029	(12,344)
At 31 December 2017	**112,176**	**257,073**	**(41,374)**	**2,374**	**46,798**	**410**	**257,603**	**635,060**	**31,129**	**666,189**

* The consolidated reserves of the Group as at 31 December 2017 of approximately RMB522,884,000 (2016: RMB538,257,000) as presented in the consolidated statement of financial position comprised these reserve accounts.

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)/Profit before taxation		**(9,464)**	9,796
Adjustments for:			
Interest income	7	**(8,307)**	(11,441)
Interest expenses	9	**30,891**	39,203
Gains arising from changes in fair value less estimated costs to sell of biological assets, net	7	**(1,609)**	(37,800)
Depreciation of property, plant and equipment	8	**67,516**	63,289
Loss on disposal of property, plant and equipment	8	**18,728**	8,182
Amortisation of prepaid premium for land leases	8	**4,324**	4,323
Amortisation of deferred income on government grant	7	**(3,063)**	(2,777)
Write down of inventories	8	**–**	3,323
Provision for amount due from a former subsidiary	8	**–**	1,860
Provision for trade receivables	8	**568**	–
Provision for other receivables	8	**5,926**	3,828
Impairment loss on property, plant and equipment		**–**	11,332
Share of loss of an associate		**260**	–
Operating profit before working capital changes		**105,770**	93,118
(Increase)/Decrease in inventories		**(45,243)**	47,787
Increase in trade and bills receivables		**(6,150)**	(27,580)
Decrease in prepayments, other receivables and deposits		**23,545**	7,060
Decrease in biological assets		**6,147**	19,546
Decrease in trade and bills payables		**(45,036)**	(39,265)
Increase/(Decrease) in accrued liabilities and other payables		**9,970**	(9,260)
Change in balance with related parties		**–**	(1,377)
Cash generated from operations		**49,003**	90,029
Interest paid		**(31,192)**	(40,267)
Income taxes paid		**(2,334)**	(5,575)
Net cash generated from operating activities		**15,477**	44,187
Cash flows from investing activities			
Purchases of property, plant and equipment		**(50,143)**	(47,504)
Deposits paid to acquire property, plant and equipment		**(385)**	(6,141)
Proceeds from disposal of property, plant and equipment		**6,936**	1,566
Receipt of deferred government grants	30	**4,017**	1,498
Decrease in amount due from a former subsidiary		**686**	–
Interest received		**8,307**	11,441
Increase in interest in an associate		**(3,000)**	–
Decrease in pledged deposits		**61,885**	83,390
Net cash generated from investing activities		**28,303**	44,250

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from financing activities			
Received from related parties		**6,103**	56,074
New bank borrowings		**645,198**	729,000
New other borrowing		**12,210**	–
Repayment of bank borrowings		**(658,879)**	(859,000)
Net cash generated from/(used in) financing activities		**4,632**	(73,926)
Net increase in cash and cash equivalents		**48,412**	14,511
Cash and cash equivalents at 1 January		**284,159**	269,648
Effect of foreign exchange rate change, net		**(185)**	–
Cash and cash equivalents at 31 December		**332,386**	284,159
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**332,386**	284,159

Notes to the Financial Statements
31 December 2017

1. CORPORATE INFORMATION

China Kangda Food Company Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 28 April 2006. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business of the Company is located at No. 1, Hainan Road, Economic and Technology Development Zone, Jiaonan City, Qingdao, the People's Republic of China. The Company's shares are primary listed on the Main Board of The Stock Exchange of Hong Kong Limited and the listing status in the Main Board of the Singapore Exchange Securities Trading Limited was changed from primary listing to secondary listing with effect from 23 January 2017.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries (together with the Company referred as the "Group") are set out in note 35 to the financial statements.

The Group's operations are principally conducted in the People's Republic of China, excluding Hong Kong and Macau, (the "PRC").

The financial statements for the year ended 31 December 2017 were approved for issue by the board of directors on 28 March 2018.

2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of new/revised IFRSs – first effective on 1 January 2017

In the current year, the Group has applied for the first time the following new and revised standards issued by the International Accounting Standards Board ("IASB"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2017:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to IAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in a note to the consolidated statement of cash flows, note 38.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(b) New/revised IFRSs that have been issued but are not yet effective

At the date of authorisation of these financial statements, the following new/revised IFRSs, potentially relevant to the Group's financial statements, have been issued but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Annual Improvements to IFRSs 2014 – 2016 Cycle	Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards[1]
Annual Improvements to IFRSs 2014 – 2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures[1]
Annual Improvements to IFRSs 2015 – 2017 Cycle	Amendments to: IFRS 3, Business Combinations; IFRS 11 Joint Arrangements; IAS 12, Income Taxes; and IAS 23 Borrowing Costs[2]
IFRS 9	Financial Instruments[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
IFRS 15	Revenue from Contracts with Customers[1]
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarification to IFRS 15)[1]
IFRS 16	Leases[2]
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC – Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(b) New/revised IFRSs that have been issued but are not yet effective (Continued)

Annual Improvements to IFRSs 2015 – 2017 Cycle – Amendments to: IFRS 3, Business Combinations; IFRS 11 Joint Arrangements; IAS 12, Income Taxes; and IAS 23 Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear.

– IFRS 3 Business Combinations: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.

– IFRS 11 Joint Arrangements: Clarifies that when an entity that participates in, but does not have joint control of a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

– IAS 12 Income Taxes: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

– IAS 23 Borrowing Costs: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete.

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at fair value through other comprehensive income. All other debt and equity instruments are measured at fair value through profit or loss. IFRS 9 includes a new expected loss impairment model for all financial assets not measured at fair value through profit or loss replacing the incurred loss model in IAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements. IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

Based on analysis of the Group's financial instruments as at 31 December 2017, the directors of the Company considered that the replacement of incurred loss impairment model in IAS 39 with the expected credit loss model required in IFRS 9 may result in early and additional provision of credit losses on the Group's financial assets measured at amortised costs including the trade and other receivables. The credit losses will be recognised in profit or loss. The directors of the Company concluded that the impact is not significant under the assessment of probability-weighted estimate of credit losses over the expected life of the Group's financial assets measured at amortised costs, with reference to the historical credit loss experience of trade and other receivables and the estimates of future economic conditions.

2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(b) New/revised IFRSs that have been issued but are not yet effective (Continued)

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

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

IFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework 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 and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 requires the application of a 5 steps 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 each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue. The Group is currently assessing the impact of the initial application of IFRS 15 and initially consider it will not have a significant impact on the Group's financial statements.

Amendments IFRS 15 – Revenue from Contracts with Customers (Clarifications to IFRS 15)

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(b) New/revised IFRSs that have been issued but are not yet effective (Continued)

IFRS 16 – Leases

IFRS 16, which upon the effective date will supersede IAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 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 recognise 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 consolidated 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 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 IAS 17. 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 set out in note 36 to the consolidated financial statements, total operating lease commitment of the Group in respect of land and buildings as at 31 December 2017 amounted to RMB70,203,000. The directors of the Company 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 results but it is expected that certain portion of these lease commitments will be required to be recognised in the form of an asset (for the right-of-use) and a financial liability (for the payment obligation) in the consolidated statement of financial position.

IFRIC – Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

IFRIC – Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of IAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Save as disclosed in the foregoing paragraph about the impact of IFRS 9, IFRS 15 and IFRS 16 to the Group's consolidated financial statements, the directors of the Company have also performed an assessment on other new standards and amendments, and have concluded on a preliminary basis that other new standards and amendments would not have a significant impact on the Group's consolidated financial statements in subsequent years.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with IFRSs which collective term includes all applicable individual International Financial Reporting Standards and Interpretations approved by the IASB, and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HK Listing Rules").

(b) Basis of measurement and going concern assumption

The financial statements have been prepared under the historical cost basis except for biological assets which are stated at fair values less cost to sell as explained in the accounting policies set out below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

In preparing the financial statements, the Directors considered the operations of the Group can continue as a going concern notwithstanding that:

1. The Group incurred a loss attributable to the owners of the Company of approximately RMB15.8 million during the year ended 31 December 2017, and as of that date, the Group's current liabilities exceeded its current assets by approximately RMB233 million; and

2. Amongst the total bank borrowings and other borrowing of approximately RMB557 million as at 31 December 2017, bank borrowings and other borrowing of approximately RMB525 million as at 31 December 2017 are due for repayment within one year from 31 December 2017.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the financial statements were prepared based on the assumption that the Group can be operated as a going concern and the Directors are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from 31 December 2017, after taking into consideration of the following:

1. The Group continues to expand its production volume by improving the utilisation rate of its facilities and implement measures to tighten cost controls over various operating expenses in order to improve its profitability and to generate positive cash inflow from its operations in the future;

2. The Group is actively negotiating with the banks to seek for renewal of the outstanding bank borrowings. Subsequent to the end of the reporting period, the Group successfully renewed bank borrowings of RMB100 million upon maturity. Furthermore, subsequent to the end of the reporting period, the Group also obtained written confirmation from several Group's major bankers, which confirmed to renew certain bank borrowings, in aggregate of up to RMB344 million, to the Group for another year upon the maturity of the bank borrowings. All these bank borrowings will mature in 2018; and

3. The Group is actively exploring the availability of alternative source of financing.

The Directors of the Company believe that the aforementioned financing/business plans and operational measures will be successful, based on the continuous efforts and commitment given by the management.

3. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement and going concern assumption (Continued)

Having regard to the cash flow projection of the Group, which are prepared assuming that these measures are successful, the Directors of the Company are of the opinion that, in the light of the measures taken to-date, together with the expected results of the other measures in progress, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the financial statements to write down the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of such adjustments has not yet been reflected in the financial statements.

(c) Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries in the PRC.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred, the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquire and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see note 4(l)) and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment at the end of that financial year or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less of disposal (if measurable) or its value in use (if determinable), whichever is higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (Continued)

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 recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold buildings	10 to 20 years
Plant and machinery	5 to 10 years
Furniture, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. The Group's financial assets are categorised as loans and receivables and available-for-sale financial assets. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– granting concession to a debtor because of debtor's financial difficulty; and

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables, 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. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

(iii) Financial liabilities

The Group classified its financial liabilities, depending on the purpose for which the liabilities were incurred. The Group's financial liabilities are carried at amortised cost, which include trade, bills and other payables and amount due to a related party, interest-bearing borrowings and other borrowing. They are subsequently measured at amortised cost using the effective interest method. The related interest expense is recognised in profit or loss. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Gain or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(v) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using weighted average method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the estimated selling price in the ordinary course of business less all further costs of completion and the estimated costs necessary to make the sale.

(h) Revenue recognition

Revenue is recognised to the extent when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, net of allowances for returns, trade discounts and value-added tax. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods – revenue is recognised when the significant risks and rewards of ownership have been transferred to the customers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Normally, risk is transferred upon dispatch of goods or acknowledgement of acceptance of goods by customers.

(ii) Interest income – interest income is recognised as interest accrues (using the effective interest method) unless collectability is in doubt.

(iii) Government grant – such income is recognised when there is reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

(i) Income tax

Income tax for the year comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. The PRC corporate income tax is provided at rates applicable to enterprises in the PRC on the income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. All charges to current tax assets or liabilities are recognised as a component of income tax expense in the profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Income tax (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply to the period the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the reporting date.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(j) Foreign currencies

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign currency translation reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign currency translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign currency translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Employee benefits

Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries of the Company in the PRC are required to contribute a certain percentage of the basic salaries of their employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Short-term employee benefits

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. A provision is made for the estimated liability for unutilised annual leave as a result of services rendered by employees up to the reporting date.

(l) Impairment of non-financial assets (except for goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– investments in subsidiaries and associates; and

– prepaid premium for land leases

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(m) Related parties

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

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

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

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

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Related parties (Continued)

(2) (Continued)

(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 the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, of 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:

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

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

(iii) dependents of that person or that person's spouse or domestic partner.

(n) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases that transfer substantially all the rewards and risks of ownership of assets to the lessee, other than legal title, are accounted for as finance lease. Where the Group is the lessee, at the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms. Where the Group is the lessor, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid premium for land leases represent up-front payments to acquire long term interests in the usage of land in the PRC. They are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over the term of the leases.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(p) Cash and cash equivalents

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

For the purpose of the consolidated statements of financial position, cash and bank balances comprise cash on hand and demand deposits repayable on demand with any banks or other financial institutions, which are not restricted to use. Cash and bank balances include deposits denominated in foreign currencies.

(q) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

(r) Government grants

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(s) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major products.

The Group has identified the reportable segments as production and sales of:

– Processed food products

– Chilled and frozen rabbit meat

– Chilled and frozen chicken meat

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Segment reporting (Continued)

– Other products comprising chicken and rabbit meat by products and pet food products

Each of these operating segments is managed separately as each of the product lines requires different resources as well as marketing approaches.

For the purposes of assessing segment performance and allocating resources between segments, the Directors assess segment profit or loss by gross profit/loss less selling expenses and certain other operating expenses. The measurement policies used by the Group for reporting segment results under IFRS 8 are the same as those accounting policies used in its financial statements prepared under IFRSs. Segment assets/liabilities have not been disclosed as such amounts are not regularly provided to the Directors for resources allocation.

For the purpose of presenting geographical location of the Group's revenue from external customers and the Group's non-current assets, country of domicile is determined to be the PRC where the majority of Company's subsidiaries operate.

(t) Dividends

Final dividends proposed by the Directors are classified as an allocation of retained profits on a separate line within the equity, until they have been approved by the shareholders at general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

(u) Biological assets

Biological assets are living animals, vegetables and hatchable eggs involved in the agricultural activities of the transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

Biological assets are measured at fair value less estimated costs to sell at initial recognition and at each reporting date. The fair value of biological assets is determined based on the market price of livestock and vegetables of similar age, breed and genetic merit.

The gain or loss arising on initial recognition of biological assets at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell of biological assets is recognised in the profit or loss for the period in which it arises.

The agricultural produce harvested from the biological assets are measured at their fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IAS 2. A gain or loss arising from agricultural produce at the point of harvest at fair value less costs to sell is included in profit or loss for the period in which it arises.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies and key sources of estimation uncertainty are discussed below.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassesses the estimations at the reporting date. The carrying amount of the Group's inventories is disclosed in note 21 to the financial statements.

(ii) Impairment of trade receivables

The Group's management assesses the collectability of trade receivables. This estimate is based on the credit worthiness and repayment history of the Group's customers and the current market condition. Management reassesses if there is any indication of the impairment loss at the reporting date. The carrying amount of the Group's trade receivables is disclosed in note 22 to the financial statements.

(iii) Income taxes and value-added tax ("VAT")

The Group is subject to various taxes in the PRC including corporate income tax and VAT. The Group also enjoys various preferential tax treatments in the PRC, e.g. the Group is exempted from corporate income tax for its businesses relating to agricultural, poultry and primary food processing and is exempted from VAT for its income derived from sale of self-produced agricultural products. Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised and deferred tax assets related to government grants. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Significant judgement is required in determining the amount of the provision for taxes and the timing of related taxes. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made. Also, the realisation of income tax assets and VAT assets is dependent on the Group's ability to generate sufficient sales and taxable income in future. Derivations of future profitability from estimates or in the income tax rate would result in adjustments to the value of tax assets and liabilities.

(iv) Fair value measurement of biological assets

Biological assets included in the Group's financial statements require measurement at fair value. The fair value measurement of the Group's biological assets utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

Level 1: Quoted prices in active markets for identical items (unadjusted);

Level 2: Observable direct or indirect inputs other than Level 1 inputs; and

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

Further information about the assumptions made in measuring fair values of the biological assets is included in note 18 to the financial statements.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(v) Depreciation

The Group depreciates the property, plant and equipment, using the straight-line method, over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects management's estimate of the period that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual value reflects management's estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, as if the asset were already of the age and in the condition expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economics, useful lives and the residual values of these assets which could then consequentially impact future depreciation charges. The carrying amounts of the Group's property, plant and equipment at 31 December 2017 is disclosed in note 14 to the financial statements.

(vi) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of the Group's goodwill as at 31 December 2017 is RMB56,778,000 (2016: RMB56,778,000).

(vii) Impairment of non-financial assets (except for goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of fair value less costs to sell and value in use. The carrying amounts of the property, plant and equipment and prepaid premium for land leases, as disclosed in notes 14 and 15 respectively, are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 4(l). Estimating the value in use requires the Group to estimate future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(viii) Going concern basis

These financial statements have been prepared on a going concern basis and the details are explained in note 3(b) to the financial statements.

6. SEGMENT INFORMATION

Information regarding the Group's reportable segments as provided to the Directors is set out below:

2017

	Processed foods RMB'000	Chilled and frozen rabbit meat RMB'000	Chilled and frozen chicken meat RMB'000	Other products RMB'000	Total RMB'000
Revenue from external customers	690,912	157,107	268,881	218,767	1,335,667
Reportable segment revenue	690,912	157,107	268,881	218,767	1,335,667
Reportable segment profit	48,311	264	2,290	15,377	66,242
Depreciation of property, plant and equipment	31,010	7,051	12,068	9,819	59,948
Amortisation of prepaid premium for land leases	2,237	509	870	708	4,324
Loss on disposal of property, plant and equipment	5,163	–	3,831	55	9,049
Provision for trade receivables	–	–	–	568	568

2016

	Processed Foods RMB'000	Chilled and frozen rabbit meat RMB'000	Chilled and frozen chicken meat RMB'000	Other products RMB'000	Total RMB'000
Revenue from external customers	730,786	139,802	232,259	159,938	1,262,785
Reportable segment revenue	730,786	139,802	232,259	159,938	1,262,785
Reportable segment profit/(loss)	60,106	(11,450)	(4,519)	9,751	53,888
Depreciation of property, plant and equipment	33,028	6,318	10,497	7,229	57,072
Amortisation of prepaid premium for land leases	2,502	479	795	547	4,323
Impairment loss on property, plant and equipment	–	4,200	7,132	–	11,332
Loss on disposal of property, plant and equipment	547	490	337	334	1,708
Write down of inventories	–	3,323	–	–	3,323

6. SEGMENT INFORMATION (CONTINUED)

Reportable segment revenue represented revenue of the Group in the consolidated statement of comprehensive income. A reconciliation between the reportable segment profit and the Group's (loss)/profit before taxation is set out below:

	2017 RMB'000	2016 RMB'000
Reportable segment profit	**66,242**	53,888
Other income and other gains	**30,624**	61,370
Administrative expenses	**(58,471)**	(49,097)
Other operating expenses	**(16,708)**	(17,162)
Finance costs	**(30,891)**	(39,203)
Share of loss of associates	**(260)**	–
(Loss)/Profit before taxation	**(9,464)**	9,796

A reconciliation between the reportable segment depreciation of property, plant and equipment and loss on disposal of property, plant and equipment and the Group's depreciation of property, plant and equipment and loss on disposal of property, plant and equipment, respectively is set out below:

	2017 RMB'000	2016 RMB'000
Reportable depreciation of property, plant and equipment	**59,948**	57,072
Depreciation of property, plant and equipment under administrative expenses	**7,568**	6,217
Consolidated depreciation of property, plant and equipment	**67,516**	63,289
Reportable loss on disposal of property, plant and equipment	**9,049**	1,708
Under other operating expenses	**9,679**	6,474
Consolidated loss on disposal of property, plant and equipment	**18,728**	8,182

The following table set out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is determined based on the location at which the goods were delivered.

	2017 RMB'000	2016 RMB'000
Local (Country of domicile)		
PRC	**708,726**	681,817
Export (Foreign countries)		
Japan	**290,374**	289,092
Europe#	**312,802**	269,329
Others	**23,765**	22,547
	1,335,667	1,262,785

Principally include Germany, France, Spain and Russia

The Group's non-current assets are solely located in the PRC.

7. REVENUE AND OTHER INCOME AND OTHER GAINS

Revenue of the Group represents the net invoiced value of goods sold, net of allowances for returns, trade discounts and value-added tax. An analysis of the Group's revenue and other income and other gains is as follows:

	2017 RMB'000	2016 RMB'000
Revenue		
Sale of goods	**1,335,667**	1,262,785
Other income and other gains		
Interest income on financial assets stated at amortised cost	**8,307**	11,441
Amortisation of deferred income on government grants (note 30)	**3,063**	2,777
Government grants related to income*	**1,730**	1,917
Gains arising from changes in fair value less estimated costs to sell of biological assets, net (note 18)	**1,609**	37,800
Insurance claims	**6,143**	3,125
Others	**9,772**	4,310
	30,624	61,370

* Various government grants have been received mainly from Qingdao District Wangdao City National Economic Centre（青島市黃島區國庫集中支付中心）and Gaomi City Financial Institution（高密市財政局）(2016: the Bureau of Industrial and Information Technology of Nong'an County（農安縣工業和信息化局））for the Group's business conducted in those areas. There are no unfulfilled conditions or contingencies related to these grants.

8. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging/(crediting):

	2017 RMB'000	2016 RMB'000
Cost of inventories recognised as an expense	**999,332**	939,373
Depreciation of property, plant and equipment*	**67,516**	63,289
Amortisation of prepaid premium for land leases**	**4,324**	4,323
Write down of inventories#	**–**	3,323
Provision for amount due from a former subsidiary^	**–**	1,860
Provision for trade receivables^	**568**	–
Provision for other receivables^	**5,926**	3,828
Minimum lease payments under operating leases for production facilities	**15,739**	16,091
Audit fee paid to auditors:		
Auditors of the Company	**1,630**	1,581
Other auditors	**329**	399
Non-audit fee paid to auditors	**199**	–
Employees costs (including Directors' remuneration)	**190,374**	179,965
Retirement scheme contribution	**10,894**	11,042
Total employees costs##	**201,268**	191,007
Loss on disposal of property, plant and equipment^	**18,728**	8,182
Exchange loss/(gain), net	**3,574**	(1,503)

8. PROFIT FROM OPERATIONS (CONTINUED)

* Depreciation of approximately RMB59,915,000 (2016: RMB56,957,000), approximately RMB33,000 (2016: RMB115,000) and approximately RMB7,568,000 (2016: RMB6,217,000) has been charged to cost of sales, selling and distribution costs and administrative expenses, respectively, for the year ended 31 December 2017.

** Amortisation of prepaid premium for land leases has been charged to cost of sales for the years ended 31 December 2016 and 2017.

\# Write down of inventories for the year was included in cost of sales for the years ended 31 December 2016.

\#\# Total employees costs of approximately RMB168,773,000 (2016: RMB164,879,000), approximately RMB11,655,000 (2016: RMB10,140,000) and approximately RMB20,840,000 (2016: RMB15,988,000) has been changed to cost of sales, selling and distribution costs and administrative expenses, respectively, for the year ended 31 December 2017.

^ Provision for amount due from a former subsidiary, provision for trade and other receivables and loss on disposal of property, plant and equipment were included in other operating expenses for the years ended 31 December 2016 and 2017.

9. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest charges on bank borrowings	**31,192**	40,267
Interest charges on other borrowing	**97**	–
Less: Amount capitalised (note)	**(398)**	(1,064)
	30,891	39,203

Note: Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.15% (2016: 5.29%) to expenditure on qualifying assets.

10. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
PRC corporate income tax		
Current year provision	**3,734**	2,670
Under-provision in prior years	**653**	150
	4,387	2,820
Deferred tax credit (note 20)	**(1,097)**	(573)
Total income tax expense	**3,290**	2,247

10. INCOME TAX EXPENSE (CONTINUED)

No Hong Kong profits tax has been provided for the year ended 31 December 2017 as the Group did not derive any assessable profit arising in Hong Kong during the year (2016: Nil).

PRC corporate income tax is provided at the rates applicable to the subsidiaries in the PRC on the income for statutory reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretations thereof.

Qingdao Kangda Foods Co., Ltd. ("Kangda Foods") and Shandong Kaijia Food Company Limited ("Kaijia Food") are established and operating in the PRC and subject to PRC corporate income tax. According to the New PRC Corporate Income Tax Law, the profit arising from agricultural, poultry and primary food processing businesses of Kangda Foods and Kaijia Food are exempted from PRC corporate income tax. The taxable profits of Kangda Foods arising from profit from business other than agricultural, poultry and primary food processing are subject to corporate income tax at 25% for the years ended 31 December 2017 and 2016.

Under the New PRC Corporate Income Tax Law and Implementation Rules, enterprises that engage in qualifying agricultural business are eligible for certain tax benefits, including full exemption of corporate income tax on profits derived from such business. Qingdao Kangda Animal Rearing Company Ltd., Qingdao Kangda Rabbit Company Ltd., Gaomi Kaijia Rearing Co., Ltd., Qingdao Kangda Modern Agricultural Technology Development Company Limited ("Modern Agricultural"), Jilin Kang'an Rabbit Co. Ltd and Jilin Kangmei Rabbit Co., Ltd engaged in qualifying agricultural business, which include breeding and sales of livestock, and are entitled to full exemption of corporate income tax during the years ended 31 December 2017 and 2016.

Tax has not been provided by the Company as the Company did not derive any assessable profits during the year (2016: Nil).

A reconciliation of the income tax expense and the accounting (loss)/profit at applicable tax rates is presented below:

	2017 **RMB'000**	2016 RMB'000
(Loss)/Profit before taxation	**(9,464)**	9,796
Tax calculated at the rates applicable to respective subsidiaries	**8,885**	2,602
Tax effect of non-deductible expenses	**8,870**	(6,785)
Tax effect of non-taxable income	**(5,706)**	63
Tax holiday and other tax benefits of PRC subsidiaries	**(2,534)**	(931)
Tax effect on current year's unrecognised tax losses	**996**	8,952
Tax effect of utilisation of tax losses previously not recognised	**(6,777)**	(1,231)
De-recognition of deferred tax assets	**(1,097)**	(573)
Under-provision in prior years	**653**	150
Income tax expense	**3,290**	2,247

11. DIVIDENDS

The board of Directors did not recommend any payment of dividends during the year (2016: Nil).

12. (LOSS)/PROFIT PER SHARE

The calculation of basic loss/profit per share is based on the loss attributable to owners of the Company of approximately RMB15,783,000 (2016: Profit of RMB6,295,000) and on the 432,948,000 (2016: 432,948,000) ordinary shares in issue during the year.

For the years ended 31 December 2017 and 2016, the Company did not have any potential ordinary shares. Accordingly, diluted earnings per share are the same as basic earnings per share.

13. EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Directors' emoluments are disclosed as follows:

	Fees RMB'000	Salaries, allowances and benefits* RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2017				
Executive directors:				
Fang Yu (note (i))	**2,529**	**361**	**–**	**2,890**
Luo Zhenwu (note (i))	**860**	**123**	**–**	**983**
Wang Yuan (note (i))	**61**	**–**	**–**	**61**
Li Wei (note (ii))	**839**	**1,762**	**–**	**2,601**
Dong Yutong (note (iii))	**38**	**9**	**–**	**47**
An Fengjun	**–**	**400**	**–**	**400**
Gao Yanxu	**–**	**72**	**–**	**72**
Non-executive directors:				
Gao Sishi (note (iv))	**–**	**–**	**–**	**–**
Zhang Qi (note (iv))	**–**	**–**	**–**	**–**
Naoki Yamada (note (iv))	**–**	**–**	**–**	**–**
Independent non-executive directors:				
Song Xuejun (note (v))	**110**	**–**	**–**	**110**
Lu Zhiwen (note (v))	**110**	**–**	**–**	**110**
Lau Choon Hoong	**167**	**–**	**–**	**167**
Chong Soo Hoon, Sean (note (v))	**56**	**–**	**–**	**56**
Yu Chung Leung (note (v))	**56**	**–**	**–**	**56**
Waiver of salary (note (vi))	**–**	**(220)**	**–**	**(220)**
	4,826	**2,507**	**–**	**7,333**
Year ended 31 December 2016				
Executive directors:				
An Fengjun	–	400	–	400
Gao Yanxu	–	72	–	72
Non-executive directors:				
Gao Sishi	–	–	–	–
Zhang Qi	–	–	–	–
Naoki Yamada	–	–	–	–
Independent non-executive directors:				
Chong Soo Hoon, Sean	120	–	–	120
Lau Choon Hoong	120	–	–	120
Yu Chung Leung	120	–	–	120
Waiver of salary (note (vi))	–	(220)	–	(220)
	360	252	–	612

13. EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Directors' emoluments (Continued)

Notes:

(i) Fang Yu, Luo Zhenwu, and Wang Yuan was appointed as executive directors of the Company on 19 June 2017.

(ii) Li Wei was appointed as executive director of the Company on 13 October 2017.

(iii) Dong Yutong was appointed as executive director of the Company on 19 June 2017 and resigned on 13 October 2017.

(iv) Gao Sishi, Zhang Qi, and Naoki Yamada resigned as non-executive directors of the Company on 19 June 2017.

(v) Chong Soo Hoon, Sean, and Yu Chung Leung resigned as the independent non-executive directors of the Company on 19 June 2017 and Song Xuejun and Lu Zhiwen was appointed as the independent non-executive directors of the Company on the same date.

(vi) For the years ended 31 December 2017 and 2016, due to the cost-saving policy, executive director Mr. An Fengjun voluntarily agreed to waive his entitlement to certain remuneration of approximately RMB220,000 and RMB220,000 respectively.

* In connection with management of the affairs of the Company and its subsidiaries

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2016: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual during the year are as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries, allowances and other benefits	**1,350**	721

The number of individuals fell within the following emolument band (excluding the Directors):

	2017	2016
Emolument band		
Nil to HK$1,000,000 (equivalent to Nil to RMB867,000)	**–**	1
HK$1,000,001 to HK$1,500,000 (equivalent to RMB867,001 to 1,301,000)	**–**	–
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,301,001 to 1,734,000)	**1**	–

(c) No emolument was paid by the Group to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016						
Cost	518,755	350,306	19,061	1,989	271,853	1,161,964
Accumulated depreciation	(163,058)	(166,515)	(12,344)	(683)	–	(342,600)
Net carrying amount	355,697	183,791	6,717	1,306	271,853	819,364
Year ended 31 December 2016						
Opening net carrying amount	355,697	183,791	6,717	1,306	271,853	819,364
Additions#	6,811	32,374	314	–	22,873	62,372
Transfer in/(out)	282,139	12,105	–	–	(294,244)	–
Disposal	(6,452)	(8,666)	(237)	(57)	–	(15,412)
Depreciation charge	(29,638)	(32,096)	(1,517)	(38)	–	(63,289)
Impairment loss	(7,514)	(3,803)	(13)	(2)	–	(11,332)
Closing net carrying amount	601,043	183,705	5,264	1,209	482	791,703
At 31 December 2016 and 1 January 2017						
Cost	789,135	358,247	18,534	1,756	482	1,168,154
Accumulated depreciation and impairment	(188,092)	(174,542)	(13,270)	(547)	–	(376,451)
Net carrying amount	601,043	183,705	5,264	1,209	482	791,703
Year ended 31 December 2017						
Opening net carrying amount	601,043	183,705	5,264	1,209	482	791,703
Additions#	7,785	26,094	6,739	89	8,520	49,227
Transfer in/(out)	964	7,126	–	–	(8,090)	–
Disposal	(10,052)	(15,428)	(120)	(64)	–	(25,664)
Depreciation charge	(32,806)	(32,933)	(1,721)	(56)	–	(67,516)
Impairment loss	–	–	–	–	–	–
Closing net carrying amount	566,934	168,564	10,162	1,178	912	747,750
At 31 December 2017						
Cost	784,836	350,420	24,450	1,541	912	1,162,159
Accumulated depreciation and impairment	(217,902)	(181,856)	(14,288)	(363)	–	(414,409)
Net carrying amount	566,934	168,564	10,162	1,178	912	747,750

Including borrowing costs of RMB398,000 (2016: RMB1,064,000) capitalised during the year (note 9) and payables for property, plant and equipment of RMB25,865,000 (2016: RMB27,179,000) (note 27).

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group performed an impairment assessment on certain property, plant and equipment of a cash-generating unit in relation to its rabbit products business within chilled and frozen rabbit meat segment during the year ended 31 December 2016 because of deterioration in the economic performance of the business. Based on the assessment, an impairment loss of approximately RMB2,870,000 was recognised in profit or loss in the consolidated statement of comprehensive income for the year ended 31 December 2016. The recoverable amounts of this cash-generating unit of approximately RMB19,780,000 were determined using fair value less costs of disposal, a level 3 fair value measurement.

The estimation of fair value less costs of disposal of the aforesaid cash-generating unit as at 31 December 2016 was carried out by Sino-Infinite Appraisal Limited, an independent valuer, with reference to the fair value of this cash-generating unit's major assets which comprised of land and buildings. The following table gives information about how the fair value less cost of disposal of the land and buildings was determined.

Description	Valuation technique	Significant unobservable inputs	Range of unobservable inputs
Land	Market approach	Comparable market transaction	RMB160 to RMB202 per square metres
Buildings	Income approach	Reversionary rental value Prevailing market rents	9% RMB3 to RMB5 per square metres per month

For the year ended 31 December 2016, the Group also performed impairment assessments for certain property, plant and equipment of certain rabbit and chicken farms located at urban area due to the decline of their functionality and substantial costs involved in improving the environmental protection measures. Based on the assessments, impairment losses of RMB8,462,000 were recognised in the consolidated statement of comprehensive income for the year ended 31 December 2016. Thereafter, the Group accepted the offer from Qingdao Kangda Foreign Trade Group Company Limited to dispose of those farms at a consideration of RMB5,664,000. As a result, a gain on disposal of these farms of RMB944,000 was recognised in the consolidated statement of comprehensive income. The said consideration was not settled as at 31 December 2016 and recognised under the balance with a related party in the consolidated statement of financial position (notes 29 and 40(a)(ix)). This transaction constituted a connected transaction of the Company under HK Listing Rules. More details were disclosed in the Company's announcement made on 14 December 2016. The said consideration has been fully settled during the year ended 31 December 2017.

All property, plant and equipment held by the Group are located in the PRC.

Certain of the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB94,318,000 (2016: RMB118,591,000) were pledged against certain of the Group's bank borrowings as at 31 December 2017 (note 28).

15. PREPAID PREMIUM FOR LAND LEASES

	Land use rights RMB'000	Prepaid land lease RMB'000	Long-term prepaid rentals RMB'000	Total RMB'000
At 1 January 2016				
Cost	75,593	12,138	59,795	147,526
Accumulated amortisation	(11,973)	(1,619)	(13,056)	(26,648)
Net carrying amount	63,620	10,519	46,739	120,878
Year ended 31 December 2016				
Opening net carrying amount	63,620	10,519	46,739	120,878
Amortisation for the year	(1,883)	(607)	(1,833)	(4,323)
Closing net carrying amount	61,737	9,912	44,906	116,555
At 31 December 2016 and 1 January 2017				
Cost	75,593	12,138	59,795	147,526
Accumulated amortisation	(13,856)	(2,226)	(14,889)	(30,971)
Net carrying amount	61,737	9,912	44,906	116,555
Year ended 31 December 2017				
Opening net carrying amount	61,737	9,912	44,906	116,555
Amortisation for the year	(1,884)	(607)	(1,833)	(4,324)
Closing net carrying amount	59,853	9,305	43,073	112,231
At 31 December 2017				
Cost	75,593	12,138	59,795	147,526
Accumulated amortisation	(15,740)	(2,833)	(16,722)	(35,295)
Net carrying amount	59,853	9,305	43,073	112,231

Long-term prepaid rentals were paid by the Group for leasing of certain farm land in the PRC.

During the year ended 31 December 2007, long-term prepaid rentals of RMB22,150,000 was paid by the Group for leasing of a plot of land in the PRC with a site area of 300 Chinese mu. The Group is in the process of applying for the land use right certificates for this land. During the years ended 31 December 2008 and 2009, land use right certificates of 60 Chinese mu and 78 Chinese mu had been obtained. The Directors, based on the opinion from a PRC lawyer, do not expect any legal obstacles for the Group in obtaining the relevant title certificate for the remaining 162 Chinese mu. The Group is in the process of applying for the land use right certificates for this land.

Prepaid land lease represented the upfront payments of the land portion of an owned-occupied commercial building.

The carrying amount of land use rights of RMB59,853,000 (2016: RMB61,737,000) are located in the PRC and the terms for land leases are from 30 to 50 years.

Certain of the Group's land use rights with an aggregate carrying amount approximately RMB46,019,000 (2016: RMB49,369,000) were pledged against certain of the Group's bank borrowings as at 31 December 2017 (note 28).

16. INTERESTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	**2,740**	–

Particulars of the associates as at 31 December 2017 and 2016 are as follows:

Name of associates	Form of business structure	Place of registration and principal place of business	Particulars of paid up capital 2017	Particulars of paid up capital 2016	Percentage of ownership interest held 2017	Percentage of ownership interest held 2016	Principal activities
吉林康大兔業有限公司 Jilin Kangda Rabbit Co., Ltd	Co-operative joint venture	PRC	**RMB10,000,000**	RMB10,000,000	**35**	35	Breeding and sale of rabbits for medicinal uses and trading of rabbits
南德商品檢測（青島）有限公司 TÜV SÜD Products Testing (Qingdao) Co., Ltd	Co-operative joint venture	PRC	**RMB10,000,000**	–	**30**	–	Testing and checking on the livestock

The associates have a reporting date of 31 December.

The financial information as extracted from the management accounts of the immaterial associates are as follows:

	2017 RMB'000	2016 RMB'000
As at 31 December		
Current assets	**3,542**	3,891
Non-current assets	**15,742**	8,980
Current liabilities	**(17,528)**	(16,199)
For the year ended 31 December		
Revenue	**14,254**	10,372
Loss for the year	**(4,914)**	(1,857)
Total comprehensive income	**(4,914)**	(1,857)

The Group has not incurred any contingent liabilities or other commitments relating to its investments in the associates.

The amount of share of unrecognised loss during the year ended 31 December 2017 and as at 31 December 2017 are RMB1,417,000 (2016: RMB650,000) and RMB2,582,000 (2016: RMB1,165,000) respectively.

17. GOODWILL

	2017 RMB'000	2016 RMB'000
At the beginning and at the end of the year		
Gross carrying amount	**59,428**	59,428
Accumulated impairment loss	**(2,650)**	(2,650)
Net carrying amount	**56,778**	56,778

Goodwill acquired in business combinations of RMB56,355,000, RMB423,000 and RMB2,650,000 are allocated to Kaijia Food and Shangdong Kaijia International Trading Co., Ltd (collectively referred to as "Kaijia Group"), Modern Agricultural and Qingdao Pu De Food Company Limited ("Pu De") respectively, under cash-generating units of chicken products operation, processed food operation and vegetables operation of the Group respectively.

The recoverable amounts of these cash-generating units are determined from value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates, budgeted gross margin and revenue during the period. Cash flow beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2016: 3%), which does not exceed the long-term growth rate for the food production industry in the PRC. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash-generating units. The growth rates, budgeted gross margin and revenue are determined based on the past performance and management's expectation of market development.

The rate used to discount the forecast cash flows from Kaijia Group and Modern Agricultural are 13.4% (2016: 14.5%) per annum.

In prior years, full impairment loss on goodwill of Pu De of RMB2,650,000 was recognised since Pu De ceased its business operation since 2014.

18. BIOLOGICAL ASSETS

(a) Reconciliation of the carrying amount of biological assets

	Breeder rabbits RMB'000	Progeny rabbits RMB'000	Breeder chickens RMB'000	Hatchable eggs and progeny chickens RMB'000	Vegetables RMB'000	Total RMB'000
At 1 January 2016	14,654	13,423	10,120	21,404	1,447	61,048
Increase due to purchases/raising	107,664	175,500	116,047	337,675	2,646	739,532
Gains arising from changes in fair value less estimated costs to sell	1,326	4,491	11	31,917	55	37,800
Decrease due to consumption/sales	(106,581)	(176,101)	(111,806)	(361,109)	(3,481)	(759,078)
At 31 December 2016 and 1 January 2017	17,063	17,313	14,372	29,887	667	79,302
Increase due to purchases/raising	133,960	206,314	83,859	319,358	1,194	744,685
Gains/(Losses) arising from changes in fair value less estimated costs to sell	1,435	1,423	593	(1,842)	–	1,609
Decrease due to consumption/sales	(133,566)	(206,980)	(86,818)	(321,706)	(1,762)	(750,832)
At 31 December 2017	**18,892**	**18,070**	**12,006**	**25,697**	**99**	**74,764**

The progeny rabbits, hatchable eggs and progeny chickens and vegetables are raised for sale and consumption in production. The breeder rabbits and chickens are held to produce further progeny rabbits and hatchable eggs and progeny chickens.

Biological assets as at 31 December 2017 and 2016 are stated at fair values less estimated costs to sell and are analysed as follows:

	2017 RMB'000	2016 RMB'000
Non-current portion	**30,898**	31,435
Current portion	**43,866**	47,867
	74,764	79,302

18. BIOLOGICAL ASSETS (CONTINUED)

(b) Physical quantities

The physical quantity of rabbits, chickens, eggs and vegetables as at 31 December 2017 and 2016 are analysed as follows:

	2017 Number of Rabbits/ Chickens/Eggs/ Vegetables	2016 Number of Rabbits/ Chickens/Eggs/ Vegetables
Progeny rabbits	**764,764**	741,993
Breeder rabbits	**195,513**	162,762
	960,277	904,755
Progeny chickens	**2,149,901**	2,249,125
Breeder chickens	**166,400**	233,302
	2,316,301	2,482,427
Hatchable eggs	**820,652**	3,605,558
Vegetables (in tonnes)	**10**	53

(c) Measurement of fair value

The fair values of the biological assets as at 31 December 2017 and 2016 except vegetables were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of independent professional valuers, who has appropriate qualifications and recent experiences in valuation of biological assets.

The fair value of biological assets is a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below.

	2017					
	Breeder rabbits RMB'000	**Progeny rabbits RMB'000**	**Breeder chickens RMB'000**	**Hatchable eggs and progeny chickens RMB'000**	**Vegetables RMB'000**	**Total RMB'000**
Opening balance (level 3 recurring fair value)	**17,063**	**17,313**	**14,372**	**29,887**	**667**	**79,302**
Increase due to purchases/raising	**133,960**	**206,314**	**83,859**	**319,358**	**1,194**	**744,685**
Gains/(Losses) included in other income	**1,435**	**1,423**	**593**	**(1,842)**	**–**	**1,609**
Decrease due to consumption/sales	**(133,566)**	**(206,980)**	**(86,818)**	**(321,706)**	**(1,762)**	**(750,832)**
Closing balance (level 3 recurring fair value)	**18,892**	**18,070**	**12,006**	**25,697**	**99**	**74,764**
Change in unrealised gains or losses for the year included in profit or loss for assets held at 31 December	**2,329**	**2,041**	**1,889**	**1,099**	**–**	**7,358**

18. BIOLOGICAL ASSETS (CONTINUED)

(c) Measurement of fair value (Continued)

	2016					
	Breeder rabbits RMB'000	Progeny rabbits RMB'000	Breeder chickens RMB'000	Hatchable eggs and progeny chickens RMB'000	Vegetables RMB'000	Total RMB'000
Opening balance (level 3 recurring fair value)	14,654	13,423	10,120	21,404	1,447	61,048
Increase due to purchases/raising	107,664	175,500	116,047	337,675	2,646	739,532
Gains included in other income	1,326	4,491	11	31,917	55	37,800
Decrease due to consumption/sales	(106,581)	(176,101)	(111,806)	(361,109)	(3,481)	(759,078)
Closing balance (level 3 recurring fair value)	17,063	17,313	14,372	29,887	667	79,302
Change in unrealised gains or losses for the year included in profit or loss for assets held at 31 December	1,326	4,491	11	2,039	55	7,922

The fair value of the biological assets is determined by using the market-comparison technique and is with reference to the market-determined prices of items with similar size, species, age and weight. These adjustments are based on unobservable inputs.

Significant unobservable inputs

	2017 Range	2016 Range
Weight	**5% – 25%**	10% – 25%

The higher the premium/discount on weight is, the higher/lower the fair value of the biological assets is.

There were no changes to the valuation technique during the period.

The fair value of vegetables is determined by the Directors with reference to market-determined prices with similar size, species and age.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2017 and 2016, the Group had 10% unlisted equity interest in Chongqing Juxin Rabbit Co., Ltd. ("Chongqing Kangda"). The aforesaid investment was accounted for an available-for-sale investment as the Group was only acted as a passive investor in Chongqing Kangda. In the opinion of the Directors, the fair value of the 10% unlisted equity interest in Chongqing Kangda was nil.

20. DEFERRED TAX ASSETS/(LIABILITIES)

Deferred taxation is calculated in full on temporary differences under the liability method using the principal tax rate of 25% (2016: 25%).

The movements on the deferred tax assets/(liabilities) are as follows:

	2017 **RMB'000**	2016 RMB'000
At 1 January	**(5,717)**	(6,290)
Deferred taxation charged to profit or loss (note 10)	**1,097**	573
At 31 December	**(4,620)**	(5,717)

The principal components of the deferred tax assets/(liabilities) are as follows:

	Fair value adjustment on property, plant and equipment, intangible assets and land use rights upon business combination RMB'000	**Deferred government grants** RMB'000	**Total** RMB'000
At 1 January 2016	(7,969)	1,679	(6,290)
Recognised in profit or loss	879	(306)	573
At 31 December 2016 and 1 January 2017	(7,090)	1,373	(5,717)
Recognised in profit or loss	879	218	1,097
At 31 December 2017	**(6,211)**	**1,591**	**(4,620)**

As at 31 December 2017, the Group's had unused tax losses of RMB67.2 million (2016: RMB81.9 million) available for offset against future profits. No deferred tax asset has been recognised in respect of these tax losses as it is not probable that future taxable profits will be available against which these tax losses can be utilised. Tax losses of RMB67.2 million (2016: RMB81.9 million) will expire at various dates up to and including 2022.

No deferred tax liabilities had been recorded on certain temporary differences of RMB32,837,000 (2016: RMB29,755,000) relating to the undistributed earnings of certain subsidiaries in the PRC of RMB328,366,000 (2016: RMB297,550,000) because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

21. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**75,151**	58,084
Finished goods	**95,888**	67,712
	171,039	125,796

22. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade and bill receivables	**98,663**	92,513
Less: provision for impairment losses of receivables	**(568)**	–
Trade and bills receivables – net	**98,095**	92,513

Trade and bills receivables are non-interest bearing and are generally on terms of 30 to 90 days. They are recognised at their original invoice amounts which represent their fair values at initial recognition.

The ageing analysis of trade and bills receivables based on invoice dates as at the reporting date is as follows:

	2017 RMB'000	2016 RMB'000
Within 30 days	**78,977**	67,985
31 – 60 days	**14,785**	15,286
61 –90 days	**2,513**	2,699
91 – 120 days	**189**	1,851
Over 120 days	**1,631**	4,692
	98,095	92,513

Before accepting any new customer, the Group will assess the potential customer's credit quality and set credit limits for that customer. Limits attributed to customers are reviewed once a year. Further details on the Group's credit policy are set out in note 37.

22. TRADE AND BILLS RECEIVABLES (CONTINUED)

The ageing analysis of trade and bills receivables that are not impaired is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**89,085**	81,723
Not more than 3 months past due	**7,593**	6,265
3 to 6 months past due	**304**	706
6 to 12 months past due	**1,113**	3,819
	98,095	92,513

Trade and bills receivables that were neither past due nor impaired related to a wide range of customers for whom were no recent history of default.

Trade and bills receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly or the trade and bills receivables are written-off against the allowance account if impairment losses on that trade and bills receivables have been recorded in the allowance account previously. The movement in the provision for impairment of trade receivables is as follows:

	2017 RMB'000	2016 RMB'000
Balance at the beginning of the year	**–**	–
Impairment losses recognised	**568**	–
Balance at the end of the year	**568**	–

The maximum exposure to credit risk for trade and bills receivables at the reporting date by geographic region is:

	2017 RMB'000	2016 RMB'000
PRC	**45,107**	38,682
Japan	**9,879**	13,890
Europe	**41,982**	34,560
Others	**1,127**	5,381
	98,095	92,513

23. PREPAYMENTS, OTHER RECEIVABLES AND DEPOSITS

	2017 RMB'000	2016 RMB'000
Prepayments	**19,769**	31,468
Other receivables and deposits[#]	**20,177**	30,780
Advance payment to an associate	**12,116**	13,359
Less: provision for impairment	**(9,754)**	(3,828)
	2,362	9,531
	42,308	71,779

[#] The balances mainly represent rental deposits and advance payments to various suppliers.

The movement in the provision for other receivables is as follows:

	2017 RMB'000	2016 RMB'000
Balance at the beginning of the year	**3,828**	–
Impairment losses recognised	**5,926**	3,828
Balance at the end of the year	**9,754**	3,828

24. AMOUNT DUE FROM A FORMER SUBSIDIARY

	2017 RMB'000	2016 RMB'000
Amount due from a former subsidiary	**1,860**	2,546
Less: provision for impairment	**(1,860)**	(1,860)
	–	686

As at 31 December 2016, the balance represented the amount due from Chongqing Kangda which was interest-free, unsecured and repayable on or before 31 December 2017. In view of the default in repayment, an impairment loss of RMB1,860,000 was recognised in the consolidated statement of comprehensive income in prior years.

The movement in the provision for the amount due from a former subsidiary is as follows:

	2017 RMB'000	2016 RMB'000
Balance at the beginning of the year	**1,860**	–
Impairment losses recognised	**–**	1,860
Balance at the end of the year	**1,860**	1,860

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Short-term deposits	**140,460**	139,345
Cash and bank balances	**232,386**	247,159
	372,846	386,504
Deposits pledged for bills payables (note 26)	**(40,460)**	(102,345)
	332,386	284,159

The Group had cash and bank balances and pledged deposits denominated in RMB amounting to approximately RMB363,694,000 as at 31 December 2017 (2016: RMB373,079,000) which were deposited with banks in the PRC. RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

The bank balances earn interest at floating rates based on daily bank deposit rates. The short-term deposits are made for varying periods between one day to six months (2016: one day to six months) and earn interest ranged from 0.30% to 3.04% (2016: 0.30% to 1.35%) per annum as at 31 December 2017.

26. TRADE AND BILLS PAYABLES

Trade payables are non-interest bearing and are normally settled on terms of 60 days. Bills payables refer to payables due to third party supplies which were guaranteed by bank for settlement in accordance to banking facilities and are non-interest bearing, secured by the pledged deposits (note 25) and are normally settled on terms of 180 days.

	2017 RMB'000	2016 RMB'000
Trade payables	**184,535**	168,771
Bills payables	**79,000**	139,800
	263,535	308,571

The ageing analysis of trade and bills payables based on invoice dates as at the reporting date is as follows:

	2017 RMB'000	2016 RMB'000
Within 60 days	**137,963**	111,598
61 –90 days	**28,870**	43,928
91 – 120 days	**30,288**	61,965
Over 120 days	**66,414**	91,080
	263,535	308,571

27. ACCRUED LIABILITIES AND OTHER PAYABLES

	2017 **RMB'000**	2016 RMB'000
Accrued liabilities	**43,034**	43,763
Other payables[#]	**59,460**	48,809
Payables for property, plant and equipment	**25,865**	27,179
	128,359	119,751

[#] The balances mainly represent receipt in advance from customers.

28. INTEREST– BEARING BANK BORROWINGS

	2017 **RMB'000**	2016 RMB'000
Interest-bearing bank borrowings		
Classified as current liabilities	**525,319**	529,000
Classified as non-current liabilities	**20,000**	30,000

As at 31 December 2017, the Group's interest-bearing borrowings were repayable as follows:

	2017 **RMB'000**	2016 RMB'000
Portion of term loans from banks due for repayable within one year	**525,319**	529,000
Portion of term loans from banks repayable in the second year	**10,000**	10,000
Portion of term loans from banks repayable in the third to fifth years, inclusive	**10,000**	20,000
	545,319	559,000

Total secured interest-bearing bank borrowings are approximately RMB380,000,000 (2016: RMB345,000,000) as at 31 December 2017.

As at 31 December 2017 and 2016, the Group's interest-bearing bank borrowings are guaranteed by certain related parties of the Group (note 40(a)(v)) and a third party and secured against pledge of certain of the Group's property, plant and equipment (note 14), land use rights (note 15), and certain of related party's properties.

The Group's interest-bearing bank borrowings bear interests ranging from 4.03% to 6.88% (2016: 4.57% to 6.88%) per annum as at 31 December 2017.

29. AMOUNT DUE TO A RELATED PARTY

The related party is a company in which Mr. Gao Sishi and Mr. Zhang Qi, key management personnel of the Company, Mr. Gao Yanxu and Mr. An Fengjun, Directors of the Company, have beneficial interest.

The amount due is mainly trade and financing in nature, unsecured, interest-free and repayable on demand.

30. DEFERRED GOVERNMENT GRANTS

	2017 RMB'000	2016 RMB'000
At the beginning of the year	23,478	24,757
Additions	4,017	1,498
Recognised as income during the year (note 7)	(3,063)	(2,777)
At the end of the year	24,432	23,478
Portion classified as current liabilities	(2,932)	(2,777)
Non-current portion	21,500	20,701

During the year, the Group received certain government subsidies with an aggregate amount of RMB4,017,000 (2016: RMB1,498,000). The additional grants were mainly received from Qingdao District Huangdao city National Economic Center（青島市黃島區國庫集中支付中心）and Gaomi City Financial Instition（高密市財政局）(2016: Economic and Technological Development Zone Finance Bureau of Qingdao City（青島經濟技術開發區財政局）) for the purpose of acquiring production facilities. Since the Group fulfilled the conditions attaching to the government grants, the Group recognised the government grants as deferred income over the expected useful lives of the relevant assets of 10 to 20 years.

31. OTHER BORROWING

	2017 RMB'000	2016 RMB'000
Other borrowing	11,760	–

As at 31 December 2017, the Group's other borrowing of HK$11,760,000 (2016: Nil) are unsecured, interest bearing at 3.5% per annum and repayable on 9 October 2019.

32. SHARE CAPITAL

Ordinary shares of HK$0.25 each	Number of shares '000	Amount HK$'000
Authorised:		
At 31 December 2017 and 2016	**2,000,000**	**500,000**
Issued and fully paid:		
At 31 December 2017 and 2016	**432,948**	**108,237**

The issued and fully paid share capital is equivalent to approximately RMB112,176,000 as at 31 December 2017 and 2016. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally will regard to the Company's residual assets.

33. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Company

	Share premium RMB'000	Merger reserve RMB'000	Capital redemption reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2016	257,073	6,143	2,374	(63,195)	202,395
Loss for the year	–	–	–	(4,079)	(4,079)
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(4,079)	(4,079)
At 31 December 2016 and 1 January 2017	257,073	6,143	2,374	(67,274)	198,316
Loss for the year	–	–	–	(11,353)	(11,353)
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(11,353)	(11,353)
At 31 December 2017	257,073	6,143	2,374	(78,627)	186,963

33. RESERVES (CONTINUED)

Group and Company

(a) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange thereof as a result of a restructuring exercise of the Group in 2006.

The merger reserve of the Company represents the difference between the net tangible asset value of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange thereof as a result of the Group's restructuring exercise in 2006.

(b) Capital redemption reserve

The capital redemption reserve of the Group represents the nominal value of the share capital of the Company repurchased and cancelled.

(c) Other reserves

In accordance with the relevant laws and regulations of the PRC, the subsidiaries of the Company established in the PRC are required to transfer 10% of its profit after taxation determined in accordance with the accounting regulations in the PRC to the other reserve until the reserve balance reaches 50% of the respective registered capital of the PRC subsidiaries.

During the previous years, the subsidiaries of the Company established in the PRC has discretionarily transferred 5% of its profit after taxation prepared in accordance with the accounting regulations in the PRC to the public welfare reserve. The use of the public welfare reserve is restricted to capital expenditure for employees' facilities. This public welfare reserve is non-distributable except upon liquidation of the PRC subsidiaries. No public welfare reserve had been provided since financial year ended 31 December 2006.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2017 RMB'000	2016 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	35	**84,144**	84,144
Total non-current assets		**84,144**	84,144
Current assets			
Prepayments, other receivables and deposits		**89**	89
Amounts due from subsidiaries		**216,715**	226,254
Cash and cash equivalents		**5**	5
Total current assets		**216,809**	226,348
Current liabilities			
Accrued liabilities and other payables		**1,814**	–
Net current assets		**214,995**	226,348
Total assets less current liabilities/Net assets		**299,139**	310,492
EQUITY			
Share capital	32	**112,176**	112,176
Reserves	33	**186,963**	198,316
Total equity		**299,139**	310,492

35. SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2017 and 2016 are as follows:

Name of subsidiaries	Place of incorporation/ registration and principal place of business	Nominal value of share/paid-up capital 2017	2016	Percentage of equity attributable to the Company 2017	2016	Principal activities
Directly held:						
美好集團有限公司 Perfect Good Group Ltd.	British Virgin Islands ("BVI"), limited liability company	**US$10,000**	US$10,000	**100**	100	Investment holding
天元榕業有限公司 Tian Yuan Rong Ye Co., Ltd	Cayman Island, limited liability company	**US$50,000**	–	**100**	–	Investment holding
Indirectly held:						
神域集團有限公司 Spiritzone Group Ltd.	BVI, limited liability company	**US$100**	US$100	**100**	100	Investment holding
青島康大食品有限公司 Qingdao Kangda Foods Co., Ltd.	PRC, limited liability company	**US$20,000,000**	US$20,000,000	**100**	100	Production of food products
青島康大海青食品有限公司 Qingdao Kangda Haiqing Foods Co., Ltd.	PRC, limited liability company	**US$800,000**	US$800,000	**100**	100	Production of food products
青島康大綠寶食品有限公司 Qingdao Kangda Lubao Foods Co., Ltd.	PRC, limited liability company	**US$5,000,000**	US$5,000,000	**100**	100	Trading of food products
青島莫爾利食品有限公司 Qingdao Murle Foods Co., Ltd.	PRC, limited liability company	**US$11,000,000**	US$11,000,000	**100**	100	Inactive
青島康大養殖有限公司 Qingdao Kangda Animal Rearing Co., Ltd.	PRC, limited liability company	**RMB3,000,000**	RMB3,000,000	**100**	100	Breeding and sales of livestock and poultry
青島康大兔業發展有限公司 Qingdao Kangda Rabbit Co., Ltd.	PRC, limited liability company	**RMB5,000,000**	RMB5,000,000	**100**	100	Breeding and sales of rabbits
吉林康大食品有限公司 Jilin Kangda Foods Co., Ltd.	PRC, limited liability company	**RMB30,000,000**	RMB30,000,000	**100**	100	Production of food products
青島康大歐洲兔業育種有限公司 Qingdao Kangda-Eurolap Rabbit Selection Co., Ltd.	PRC, limited liability company	**RMB13,980,000**	RMB13,980,000	**70**	70	Breeding and sales of rabbits
青島康大現代農業科技發展有限公司 Modern Agricultural	PRC, limited liability company	**RMB10,000,000**	RMB10,000,000	**100**	100	Planting and selling of vegetables
青島百順食品有限公司 Qingdao Baishun Food Company Limited	PRC, limited liability company	**RMB1,000,000**	RMB1,000,000	**100**	100	Inactive
青島康大分析檢測有限公司 Qingdao Kangda Analysis and Testing Co., Ltd.	PRC, limited liability company	**RMB1,000,000**	RMB1,000,000	**100**	100	Testing and checking on the livestock
青島普德食品有限公司 Pu De	PRC, limited liability company	**US$4,000,000**	US$4,000,000	**55**	55	Inactive

35. SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ registration and principal place of business	Nominal value of share/paid-up capital 2017	2016	Percentage of equity attributable to the Company 2017	2016	Principal activities
吉林康安兔業有限公司 Jilin Kang'an Rabbit Co. Ltd.	PRC, limited liability company	**RMB1,000,000**	RMB1,000,000	**100**	100	Breeding and sales of rabbits
山東凱加食品有限公司 Kaijia Food	PRC, limited liability company	**RMB100,000,000**	RMB100,000,000	**100**	100	Production of food products
山東凱加國貿有限公司 Shandong Kaijia International Trading Co., Ltd. ("Kaijia Trading")	PRC, limited liability company	**RMB46,670,000**	RMB46,670,000	**70**	70	Trading of food products
高密凱加養殖有限公司 Gaomi Kaijia Rearing Co., Ltd.	PRC, limited liability company	**RMB39,253,051**	RMB39,253,051	**100**	100	Breeding and sales of livestock and poultry
吉林康大擔保有限公司 Jilin Kangda Guarantee Co., Ltd	PRC, limited liability company	**RMB20,000,000**	RMB20,000,000	**90**	90	Inactive
吉林康都飼料有限公司 Jilin Kangdu Feeds Co., Ltd.	PRC, limited liability company	**RMB2,000,000**	RMB2,000,000	**100**	100	Feed processing
萊芜康大飼料有限公司 Laiwu Kangda Feeds Co., Ltd.	PRC, limited liability company	**RMB3,000,000**	RMB3,000,000	**100**	100	Sales of feed products
吉林康美兔業有限公司 Jilin Kangmei Rabbit Co., Ltd.	PRC, limited liability company	**RMB8,500,000**	RMB8,500,000	**51**	51	Breeding and sales of rabbits
北京智尚科訊投資管理有限公司	PRC, limited liability company	**RMB300,000**	–	**100**	–	Investment management
天元佑善（天津）健康咨詢有限公司	PRC, limited liability company	**HKD1,000,000**	–	**100**	–	Consultancy service
天元佑善（北京）醫藥有限公司 Tian Yuan You Shan (Beijing) Pharmacy Co., Ltd	PRC, limited liability company	**HKD1,000,000**	–	**100**	–	Retail and wholesale and consultancy service
天元佑善有限公司 Tian Yuan You Shan Co, Ltd (HK)	HK, limited liability company	**HKD100**	–	**100**	–	Investment holding
天元佑善健康管理有限公司 Tian Yuan You Shan Health Management Co., Ltd	HK, limited liability company	**HKD100**	–	**100**	–	Investment holding

None of the subsidiaries had issued any debt securities at the end of the year.

35. SUBSIDIARIES (CONTINUED)

Non-controlling interests

Kaijia Trading, a 70% owned subsidiary of the Company, has material non-controlling interests of 30% which is material to the Group. The non-controlling interests of all other subsidiaries that are not 100% owned by the Group are considered to be immaterial.

Summarised financial information in relation to Kaijia Trading, before intra-group eliminations, is presented below:

	2017 **RMB'000**	2016 RMB'000
For the year ended 31 December		
Revenue	**13,162**	13,875
Profit for the year	**4,107**	5,612
Total comprehensive income for the year	**4,107**	5,612
Profit allocated to non-controlling interests	**1,232**	1,684
For the year ended 31 December		
Cash flows generated from operating activities	**25,719**	283
Cash flows used in investing activities	**(492)**	(476)
Cash flows used in financing activities	**(25,000)**	–
Net cash inflow/(outflow)	**227**	(193)
As at 31 December		
Current assets	**22,507**	39,944
Non-current assets	**26,761**	29,201
Current liabilities	**(1,902)**	(25,886)
Net assets	**47,366**	43,259
Accumulated non-controlling interests	**14,210**	12,978

36. COMMITMENTS

(a) Operating lease commitments

Except for the prepaid premium for land leases (note 15), the Group leases certain of its land and buildings and office premises under operating lease arrangements. Leases for land and buildings and office premises are for terms ranging from 10 to 30 years.

The total future minimum lease payments under non-cancellable operating leases, which the Group is a leasee are as follows:

As lessee

	2017 **RMB'000**	2016 RMB'000
Within one year	**7,641**	8,078
In the second to fifth years	**37,050**	41,689
After the fifth year	**25,512**	31,603
	70,203	81,370

(b) Capital commitments

Capital commitments not provided for in the financial statements were as follows:

	2017 **RMB'000**	2016 RMB'000
Contracted but not provided for in respect of:		
Purchase of property, plant, equipment	**7,585**	5,476

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations. The financial risks included market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The board of Directors of the Company meets periodically to analyse and formulate measures to manage the Group's exposure to the financial risk, including principally changes in interest rates and currency exchange rates.

Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Categories of financial assets and liabilities

The categories of financial assets and financial liabilities included in the consolidated statement of financial position and the headings in which they are included are as follows:

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables		
– Amount due from a former subsidiary	–	686
– Trade and bills receivables	98,095	92,513
– Other receivables and deposits	22,539	40,311
– Cash and bank balances (including pledged deposits)	372,846	386,504
	493,480	520,014
Financial liabilities		
At amortised cost		
– Trade and bills payables	263,535	308,571
– Accrued liabilities and other payables	128,359	119,751
– Interest-bearing bank borrowings	545,319	559,000
– Other borrowing	11,760	–
– Amount due to a related party	38,269	32,166
	987,242	1,019,488

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group borrows both loans issued at fixed and floating interest rates. Exposure to floating interest rate presents when there are unexpected adverse interest rate movements. The Group's policy is to manage its interest rate risk, working within an agreed framework, to ensure that there are no unduly exposures to significant interest rate movements and rates are approximately fixed when necessary. The policies to manage interest rate risk have been followed by the Group since prior years.

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Interest rate risk (Continued)

(i) Interest rate profile

The following tables detail the interest rate profile of the Group's financial instruments at the reporting date:

	Weighted average effective interest rate		Carrying amount	
	2017	2016	**2017**	2016
	%	%	**RMB'000**	RMB'000
Variable rate instruments				
Financial assets				
Bank balances	**0.29%**	0.29%	**232,386**	247,159
Financial liabilities				
Interest-bearing bank borrowings	**4.94%**	5.47%	**310,000**	175,000
Fixed rate instruments				
Financial assets				
Time deposits	**2.53%**	1.29%	**140,460**	139,345
Financial liabilities				
Interest-bearing bank borrowings and other borrowing	**5.26%**	5.11%	**247,079**	384,000

(ii) Interest rate sensitivity analysis

The following tables illustrate the sensitivity of the (loss)/profit for the year and equity to a reasonably possible change in interest rates of +0.5% and –0.5% (2016: +0.5% and – 0.5%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments, which are subject to variable rate, held at each reporting date. All other variables are held constant. There is no impact on other components of consolidated equity in response to the possible change in interest rates.

	2017 RMB'000		2016 RMB'000	
	+0.5%	**–0.5%**	+0.5%	–0.5%
Effect on (loss)/profit for the year and retained profits	**(388)**	**388**	361	(361)

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its business.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. The credit policy has been followed by the Group since prior years.

The Group's management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(d) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the Group entities to which they relate. The currencies giving rise to this risk are mainly Euro, United States dollars ("USD"), Japanese Yen ("JPY"), Singapore dollar ("SGD") and Hong Kong dollar ("HK$").

The Group reviews its foreign currency exposures regularly and does not consider its foreign exchange risk to be significant. The policy to manage foreign currency risk has been followed by the Group since prior years.

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(d) Foreign currency risk (Continued)

(i) Foreign currency risk exposure

The following tables detail the Group's exposures at the reporting date to foreign currency risk from the financial assets and financial liabilities denominated in a currency other than the functional currency to which the Group entities relate:

	2017				
	USD RMB'000	**EURO RMB'000**	**JPY RMB'000**	**SGD RMB'000**	**HK$ RMB'000**
Financial assets					
Trade receivables	**42,756**	**7,454**	**579**	**–**	**–**
Cash and bank balances	**2,901**	**1,611**	**–**	**5**	**4,635**
	45,657	**9,065**	**579**	**5**	**4,635**
Financial liabilities					
Trade payables	**3,562**	**–**	**–**	**–**	**–**
Bank borrowings	**1,319**	**–**	**–**	**–**	**–**
Other borrowing	**–**	**–**	**–**	**–**	**11,760**
	4,881	**–**	**–**	**–**	**11,760**

	2016				
	USD RMB'000	EURO RMB'000	JPY RMB'000	SGD RMB'000	HK$ RMB'000
Financial assets					
Trade receivables	44,527	7,470	5,227	–	–
Cash and bank balances	7,013	4,184	2,119	5	104
	51,540	11,654	7,346	5	104
Financial liabilities					
Trade payables	4,150	–	–	–	–

Apart from the above, all the Group's financial assets and liabilities are denominated in RMB.

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(d) Foreign currency risk (Continued)

(ii) Foreign currency sensitivity analysis

The following table indicates the approximate change in the Group's (loss)/profit for the year and equity in response to a 5% appreciation in the respective foreign currencies against the Group's functional currencies against the respective foreign currencies. There is no impact on other components of consolidated equity in response to the general increase in the following foreign currency rates.

			2017		
	USD RMB'000	**EURO RMB'000**	**JPY RMB'000**	**SGD RMB'000**	**HK$ RMB'000**
Effect on loss for the year and retained profits	**2,039**	**453**	**29**	**–**	**(356)**

			2016		
	USD RMB'000	EURO RMB'000	JPY RMB'000	SGD RMB'000	HK$ RMB'000
Effect on profit for the year and retained profits	2,369	583	367	–	5

A weakening of the above foreign currencies against RMB at each reporting date would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(e) Business risk

The Group is exposed to the following risks relating to its agricultural activities.

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in the PRC which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws.

(ii) Supply and demand risk

The Group is exposed to financial risks arising from changes in prices of livestock and livestock environmental policies and procedures aimed at compliance with local environmental of which are determined by constantly changing market forces of supply and demand, and other factors. When possible, the Group manages these risks by aligning its production volume to market supply and demand and the Group also manages its exposure to fluctuation in the price of the key raw materials used in operations by maintaining a large number of suppliers so as to limit high concentration in a particular supplier.

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(e) Business risk (Continued)

(iii) Other risk

The Group is subject to risks relating to its ability to maintain health status. Livestock health problems could adversely impact production and consumer confidence. The Group monitors the health of its livestock on a regular basis and has procedures in place to reduce potential exposure to infectious diseases.

(f) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or financial asset. The Group are exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management.

As disclosed in note 3(b) to the financial statements, the Group incurred a loss attributable to the owners of the Company of approximately RMB15.8 million during the year ended 31 December 2017, and as of that date, the Group's current liabilities has exceeded its current assets by RMB233 million as at 31 December 2017. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its obligations as they fall due, and on its ability to obtain external financing. Further details are set out in note 3(b) to the financial statements. Subsequent to the end of the reporting period, the Group successfully renewed bank borrowings of RMB100 million upon maturity. Furthermore, subsequent to reporting date, the Group also obtained written confirmation from several Group's major bankers, which confirmed to renew certain bank borrowings, in aggregate of up to RMB344 million, to the Group for another year upon the maturity of the bank borrowings. The Directors of the Company have also carried out a detailed review of the cash flow projection of the Group for the next 12 months from the reporting date. The Directors are of the opinion that the assumptions which are included in the cash flow projection are reasonable. Based on above, the Directors have determined that adequate liquidity exists to finance its working capital and financing activities of the Group for that period.

The cash flow management of all operating entities is centralised, including the raising of funds to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The maturity analysis for bank borrowings is prepared based on the scheduled repayment dates.

	2017 RMB'000	2016 RMB'000
Repayable within one year	**525,319**	529,000
Repayable in the second year	**10,000**	10,000
Repayable in the third to fifth years, inclusive	**10,000**	20,000
	545,319	559,000

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

(f) Liquidity risk (Continued)

The liquidity policy has been followed by the Group since prior years.

As at 31 December 2017 and 2016, the maturity analysis of the Group's financial assets, based on the contracted undiscounted maturity, and the maturity profile of the Group's financial liabilities, based on the contracted undiscounted payments, are summarised below:

	2017			2016		
	Within 6 months or on demand RMB'000	6 to 12 months RMB'000	After 1 year RMB'000	Within 6 months or on demand RMB'000	6 to 12 months RMB'000	After 1 year RMB'000
Non-derivative financial assets:						
Amount due from a former subsidiary	–	–	–	686	–	–
Trade and bills receivables	98,095	–	–	92,513	–	–
Other receivables and deposits	22,539	–	–	40,311	–	–
Cash and bank balances (including pledged deposits)	372,846	–	–	386,504	–	–
	493,480	–	–	520,014	–	–
Non-derivative financial liabilities:						
Trade and bills payables	263,535	–	–	308,571	–	–
Accrued liabilities and other payables	128,359	–	–	119,751	–	–
Amount due to a related party	38,269	–	–	32,166	–	–
Interest-bearing bank borrowings	231,178	295,802	21,749	308,662	233,608	33,410
Other borrowing	–	–	12,492	–	–	–
	661,341	295,802	34,241	769,150	233,608	33,410

(g) Fair value

The Group's financial assets and liabilities carried at amortised costs are not materially different from their fair values as at 31 December 2017 and 2016.

38. 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 flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amount due to a related party RMB'000	Interest-bearing bank borrowings RMB'000	Other borrowing RMB'000
At 1 January 2017	32,166	559,000	–
Changes from cash flows:			
Received from a related party	6,103	–	–
New bank borrowings	–	645,198	–
Repayment of bank borrowings	–	(658,879)	–
New other borrowing	–	–	12,210
As at 31 December 2017	38,269	545,319	12,210
Exchange adjustments:	–	–	(547)
Other changes:			
Interest expenses	–	31,192	97
Interest paid	–	(31,192)	–
Total other changes	–	–	97
At 31 December 2017	38,269	545,319	11,760

39. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current and previous years.

The Group monitors capital using a gearing ratio, which is total debts divided by total capital. Total debts are calculated as the sum of bank borrowings and amount due to a related party as shown in the consolidated statement of financial position. Total capital is calculated as total equity attributable to the Company's owners, as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level.

	2017 RMB'000	2016 RMB'000
Interest-bearing bank borrowings	**545,319**	559,000
Other borrowing	**11,760**	–
Amount due to a related party	**38,269**	32,166
Total debts	**595,348**	591,166
Equity attributable to the Company's owners	**635,060**	650,433
Total debts to equity ratio	**94%**	91%

39. CAPITAL MANAGEMENT (CONTINUED)

Subsidiaries of the Group established in the PRC are required to contribute and maintain a non-distributable statutory reserve fund whose utilisation is subject to certain restrictions as set out in the relevant regulations in the PRC. Certain of the Group's bank borrowings are subject to the fulfillment of covenants relating to certain of its subsidiaries' financial ratios. The Group regularly monitors its compliance with these covenants. These externally imposed capital requirements have been complied with by the Group for the years ended 31 December 2017 and 2016.

40. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

	Notes	**2017 RMB'000**	2016 RMB'000
Sales to related parties	(i)	**2,380**	2,436
Purchases from related parties	(ii)	**–**	519
Rental expenses paid to related parties	(iii)	**480**	539
Interest income from a related party	(iv)	**–**	4,913
Guarantees given by the related parties in connection with bank loans granted to the Group	(v)	**1,282,400**	330,000
Sales to associates	(vi)	**6,264**	1,703
Purchases from an associate	(vi)	**8,680**	7,846
Testing fee paid to an associate	(vii)	**1,956**	–
Consideration received relating to disposal of property plant and equipment to an associate	(viii)	**6,500**	–
Consideration received relating to disposal of property, plant and equipment	(ix)	**–**	5,664

(b) Key management personnel compensation

	2017 RMB'000	2016 RMB'000
Short term employee benefits of Directors and other members of key management	**10,291**	1,333

40. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) (Continued)

Notes:

(i) Sales to related parties were made to related parties of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi have beneficial interest. These sales were made in the ordinary course of business with reference to the terms negotiated between the Group and these related parties.

(ii) Purchases from related parties were mainly construction materials from related parties of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi have beneficial interest. These purchases were made in the ordinary course of business with reference to the terms negotiated between the Group and these related parties.

(iii) Rental expenses paid to related parties, of which Mr. Gao Sishi and Mr. Zhang Qi were key management personnel of the Company and Mr. Gao Yanxu and Mr. An Fengjun were directors of the Company having beneficial interest, were made according to the terms of the lease agreements.

(iv) During the year ended 31 December 2016, interest income from a related party, of which Mr. Gao Sishi, Mr. An Fengjun, Mr. Gao Yanxu and Mr. Zhang Qi were also shareholders and/or directors, have beneficial interest, was made according to 5.53% per annum of the outstanding balance from this related party.

(v) The Group's bank borrowings (note 28) were guaranteed by the related parties, of which Mr. Gao Sishi and Mr. Zhang Qi were key management personnel of the Company and Mr. An Fengjun and Mr. Gao Yanxu were directors of the Company, having beneficial interest.

(vi) Sales and purchase from associates were made in the ordinary course of business with reference to the terms negotiated between the Group and the associates.

(vii) Testing fee paid to an associate was made in ordinary course of business with reference to the terms negotiated between the Group and the associate.

(viii) The Group disposed certain property, plant and equipment with a carrying amount of RMB4,713,000 to an associate at a consideration of RMB6,500,000.

(ix) During the year ended 31 December 2016, the Group disposed certain property, plant and equipment with a carrying amount of RMB4,720,000 to a related party of which Mr. Gao Sishi, Mr. An Fengjun, Mr. Gao Yanxu and Mr. Zhang Qi were also shareholders and/or directors at a consideration of RMB5,664,000 (note 14).

41. EVENT AFTER THE REPORTING DATE

On 29 January 2018, the Company entered into the equity transfer agreements with Qingdao Wang Jingyuan Foods Co., Ltd., an independent third party, to dispose all the equity interests of Jilin Kangda Foods Co., Ltd. and Laiwu Kangda Feeds Co., Ltd. (the "Target Companies"), wholly-owned subsidiaries of the Company, and the sale of all the inter-company loans owned by the Target Companies at an aggregate cash consideration of RMB41,000,000. Further details were disclosed in the announcement dated 29 January 2018.

On 22 March 2018, the Group entered into an equity transfer agreement with Tianjin Zhengde Xingkang Information Consulting Co., Ltd., an independent third party, to acquire all the equity interests of Huaxia ShengSheng Pharmacy (Beijing) Co., Ltd. engaging in retail and wholesale of healthcare and pharmaceutical products, at an aggregate cash consideration of RMB14,000,000.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the directors on 28 March 2018.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of CHINA KANGDA FOOD COMPANY LIMITED (the "Company") will be held at Caine Room, 7/F, Conrad Hong Kong, Pacific Place, 88 Queensway, Admiralty, Hong Kong on Friday, 22 June 2018 at 9:30 a.m. Any Shareholder or depositor or proxy who wishes to take part in the AGM from Singapore, may attend via video conference which shall be held at Room 502, Level 5, RELC International Hotel, 30 Orange Road, Singapore 258352. The persons attending the said video conference will be able to pose questions to the management and to comment on matters to be transacted at the AGM. Please be punctual to avoid disrupting the AGM which will commence at 9:30 a.m. sharp on Friday, 22 June 2018 for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Financial Statements of the Company for the financial year ended 31 December 2017 together with the Auditor's Report thereon.

(Resolution 1)

2. To re-elect the following Directors retiring pursuant to the Company's Bye-laws:

Lau Choon Hoong	(Retiring under Bye-law 86(1))	**(Resolution 2)**
Fang Yu	(Retiring under Bye-law 85(6))	**(Resolution 3)**
Luo Zhenwu	(Retiring under Bye-law 85(6))	**(Resolution 4)**
Wang Yuan	(Retiring under Bye-law 85(6))	**(Resolution 5)**
Song Xuejun	(Retiring under Bye-law 85(6))	**(Resolution 6)**
Lu Zhiwen	(Retiring under Bye-law 85(6))	**(Resolution 7)**
Li Wei	(Retiring under Bye-law 85(6))	**(Resolution 8)**

3. To approve the payment of Directors' fees of RMB499,000 for the financial year ended 31 December 2017 (2016: RMB360,000).

(Resolution 9)

4. To re-appoint BDO Limited, Certified Public Accountants, Hong Kong ("BDO") as auditor of the Company to satisfy the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited and to authorise the Directors to fix their remuneration.

(Resolution 10)

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

6. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution with or without modifications.

"THAT:

(a) subject to paragraph (c) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company ("Shares") and to make or grant offers, agreements and options (including warrants, bonds, notes, debentures and other securities which carry rights to subscribe for or are convertible into Shares) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, notes, debentures and other securities which carry rights to subscribe for or are convertible into Shares) which would or might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate number of Shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to

(i) a Rights Issue (as hereinafter defined); or

(ii) the exercise of any rights of subscription or conversion under the terms of any existing warrants, options, bonds, notes, debentures any securities of the Company which carry rights to subscribe for or are convertible into shares of the Company; or

(iii) an issue of Shares upon the exercise of subscription rights under any option scheme or similar arrangement for the time being adopted for the grant or issue to the grantees as specified in such scheme or similar arrangement of Shares or rights to acquire the Shares; or

(iv) an issue of Shares pursuant to any scrip dividends or similar arrangement providing for allotment of Shares in lieu of the whole or part of the dividend on Shares in accordance with the Bye-laws of the Company from time to time,

shall not exceed 20% of the aggregate number of issued Shares of the Company as at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution, "Relevant Period"means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or the Companies Act 1987 of Bermuda or any other applicable law of Bermuda to be held; or

(iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; and

"Rights Issue"means an offer of Shares or issue of option, warrants or other securities giving the right to subscribe for Shares, open for acceptance for a period fixed by the Directors of the Company to the holders of Shares, or any class of Shares, whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their holdings of such Shares (or, where appropriate, such other securities) as at that date (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory or otherwise howsoever applicable to the Company)."

See Explanatory Notes (i)

(Resolution 11)

Notice of Annual General Meeting

7. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution with or without modifications.

   "THAT:

   (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to buy back shares in the capital of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited (the "HKSE") or on any other exchange on which the Shares may be listed and recognized by the Securities and Futures Commission and the HKSE for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the HKSE or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

   (b) the Shares which the Company is authorized to buy back pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate number of Shares of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly; and

   (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

      (i) the conclusion of the next annual general meeting of the Company; or

      (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or the Companies Act 1981 of Bermuda or any other applicable law of Bermuda to be held; or

      (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting."

   See Explanatory Notes (ii)

(Resolution 12)

8. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution with or without modifications.

   "THAT subject to the passing of Ordinary Resolutions Nos. 11 and 12 set out in the notice convening this meeting, the general mandate granted to the Directors of the Company to exercise the powers of the Company to allot, issue and deal with additional shares in the capital of the Company ("Shares") pursuant to Ordinary Resolution No. 11 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate number of Shares bought back by the Company under the authority granted pursuant to Ordinary Resolution No. 12 set out in the notice convening this meeting, provided that such extended amount shall not exceed 10% of the aggregate number of the issued Shares of the Company at the date of passing this Resolution."

   See Explanatory Notes (iii)

(Resolution 13)

By Order of the Board

Fong William
Company Secretary

30 April 2018

Notice of Annual General Meeting

Explanatory Notes to Resolutions to be passed –

(i) With respect to Resolution 11, approval is being sought from shareholders for a general mandate to issue shares to be given to the Directors.

(ii) With respect to Resolution 12, approval is being sought from shareholders for a general mandate to buy back shares to be given to the Directors.

(iii) With respect to Resolution 13, approval is being sought from shareholders for an extension of the general mandate to be granted to the Directors pursuant of Resolution 11 to allot shares by adding to it the number of shares bought back by the Company under the authority granted to the Directors pursuant to Resolution 12.

NOTES

1. A member entitled to attend and vote at the meeting who is a holder of two or more shares may appoint not more than two proxies to attend and vote on his/her behalf and where a member appoints more than one proxy, he shall specify the proportion of his shareholding to be represented by each proxy. A proxy need not be a member of the Company.

2. A member who wishes to appoint a proxy should complete the attached Shareholder Proxy Form. Thereafter, the proxy form must be lodged at the office of the Company's branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (for Hong Kong Shareholders), or the Company's Singapore Share Transfer Agent, B.A.C.S. Private Limited, at 8 Robinson Road #03-00, ASO Building, Singapore 048544 (for Singapore Shareholders), not less than forty-eight (48) hours before the time appointed for the meeting.

3. If the member is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

4. A Depositor whose name appears in the Depository Register of the Company and who is unable to attend personally but wishes to appoint a nominee to attend and vote on his behalf, or if such Depositor is a corporation, should complete the depositor proxy form under seal or the hand of its duly authorised officer or attorney and lodge the same at the office of the Company's Singapore Share Transfer Agent, B.A.C.S. Private Limited, at 8 Robinson Road #03-00, ASO Building, Singapore 048544 not later than 48 hours before the time appointed for the meeting.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

As at the date of this notice, the executive Directors of the Company are Mr. Fang Yu (Chief Executive Officer and Chairman), Mr. An Fengjun, Mr. Gao Yanxu, Mr. Luo Zhenwu, Mr. Wang Yuan and Mr. Li Wei, and the independent non-executive Directors are Mr. Lau Choon Hoong, Mr. Song Xuejun and Mr. Lu Zhiwen.