Labixiaoxin Snacks Group Limited

蠟筆小新休閒食品集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1262

INTERIM REPORT 2018

CONTENTS

CORPORATE INFORMATION

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Wuli Industrial Area
Jinjiang, Fujian
PRC

PLACE OF BUSINESS IN HONG KONG

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

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock code: 1262

COMPANY WEBSITE

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

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

Li Zhi Hai
Sun Kam Ching
Chung Yau Tong

COMPANY SECRETARY

Chan Yee Lok

AUTHORIZED REPRESENTATIVES

Zheng Yu Shuang
Chan Yee Lok

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

CORPORATE INFORMATION *(Continued)*

NOMINATION COMMITTEE

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

AUDITORS

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

LEGAL ADVISOR

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

PRINCIPAL SHARE REGISTRAR

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

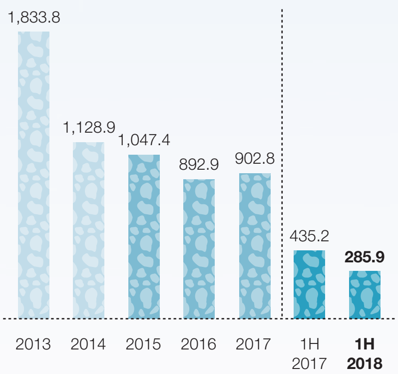
Construction Bank of China, Jinjiang Branch
Construction Bank Building
Zeng Jin Area, Qing Yang
Jinjiang, Fujian
PRC

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

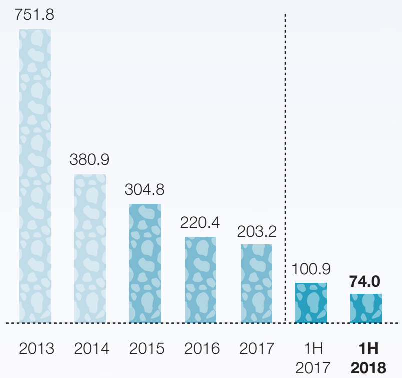
China CITIC Bank, Quanzhou Branch
1-2/F, Renmin Yinhang Building
Quanzhou, Fujian
PRC

FINANCIAL HIGHLIGHTS

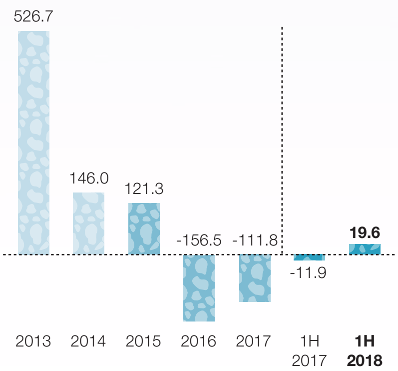
Revenue
RMB'M



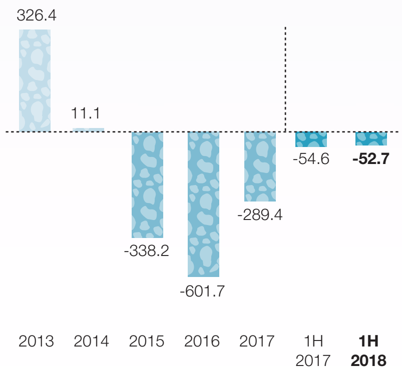
Gross Profit
RMB'M



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

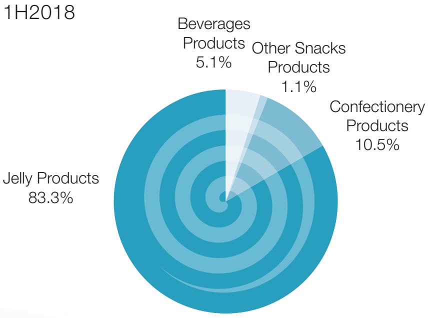


Net Profit/(Loss)
RMB'M

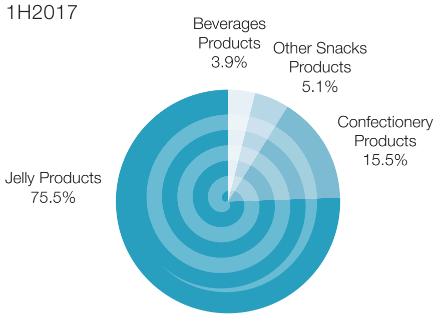


Revenue by Products

1H2018

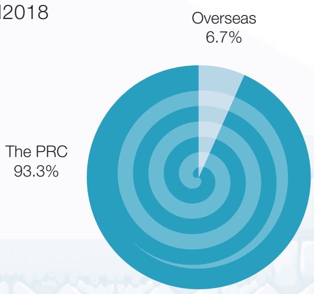


1H2017

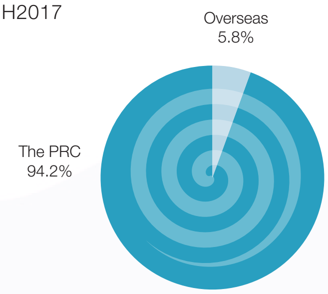


Revenue by Locations of End Customers

1H2018



1H2017



Note: EBITDA/(LBITDA) refers to earnings/(loss) before interests, income tax, depreciation, amortization, impairment on property, plant and equipment, impairment on loan receivable and non-cash share-based payment.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2018, the Group has reported revenue of RMB285.9 million, representing a decrease of approximately 34.3% as compared with the corresponding period of last year mainly due to decrease in sales of jelly products, confectionary products and other snacks products by 27.6%, 55.7% and 85.1%, respectively.

The decrease in the Group's revenue during the six months ended 30 June 2018 was mainly due to the Group having ceased the production of the majority of low margin products items with a view to enhancing the Group's overall profitability. Although this measure had immediately improved the gross profit margin ratio of the Group, it had also imposed a short-term negative pressure on the Group's revenue during the period under review.

During the period under review, the Group had also ceased to make advertisement through sponsoring popular TV programs as the Directors considered that it was not the most cost effective way to promote the Group's products under current market situation. Instead, the Group had put more effort in launching advertisement in other media channels during the period under review. As a result of the changes in advertising and promotion strategy, the Group's advertising and promotion expenses decreased by approximately 75.2% to RMB20.2 million during the period under review.

For the six months ended 30 June 2018, the Group recorded a net loss of RMB52.7 million, representing a decrease of 3.5% as compared with the net loss of RMB54.6 million in the same period last year.

Revenue

Revenue decreased by approximately 34.3% to RMB285.9 million in the first half of 2018 when compared with the same period in 2017. The decrease in the Group's revenue during the six months ended 30 June 2018 was mainly due to the Group having ceased the production of the majority of the low margin products items with a view to enhancing the Group's overall profitability. During the period under review, the Group has continued to exert reasonable efforts in marketing and promotion with a view to maintaining its distribution network. As at 30 June 2018, the Group had a total number of 532 distributors (30 June 2017: 498).

Jelly products

Revenue of jelly products decreased by approximately 27.6% from RMB328.8 million in the first half of 2017 to RMB238.2 million in the first half of 2018, primarily due to the Group having ceased the production of certain low margin jelly product items during the period under review which has temporary negative impact on sales of jelly products. During the six months ended 30 June 2018, revenue attributable to jelly snacks decreased by approximately 27.0% to RMB141.6 million while sales attributable to jelly beverages decreased by approximately 28.5% to RMB96.4 million.

Confectionary products

Confectionary products also recorded a decline in revenue during the six months ended 30 June 2018. Sales of confectionary products decreased by approximately 55.7% from RMB67.5 million in the first half of 2017 to RMB29.9 million in the first half of 2018. The decrease was mainly due to the Group having ceased the production of certain low margin confectionary product items during the period under review which has temporary negative impact on sales of confectionary products. In addition, there were less orders placed by overseas customers during the period under review which affected both the revenue and profit margin of the Group's confectionary products.

BUSINESS REVIEW *(Continued)*

Revenue *(Continued)*

Beverages products

The beverages market in the PRC remained highly competitive and was dominated by several major brands. Revenue of beverages products of the Group decreased by approximately 13.8% to RMB14.5 million in the first half of 2018. Although there is a decrease in sales of beverages products during the period, the gross profit margin of the segment has improved significantly from 11.0% in the first half of 2017 to 29.0% in the period under review. Improvement in gross profit margin was mainly due to the Group's effort made in last couple of years to adjust the product mix of the beverages segment which begin to materialize.

Other snacks products

Revenue of other snacks products dropped by approximately 85.1% to RMB3.3 million, mainly due to the Group having ceased the production of the majority of low margin snacks product items during the period under review which has temporary negative impact on the sales of other snacks products.

Cost of Sales and Gross Profit

Cost of sales decreased by approximately 36.6% to RMB211.9 million in the first half of 2018. The decrease was mainly attributable to the corresponding decrease in sales during the period under review. During the period under review, the purchase costs of several major raw materials such as packaging materials and canned fruits continued to rise which erode the profit margin of our certain products. To cope with the hike in raw materials costs, the Group had ceased to produce most of the low margin products items to enhance the Group's overall profitability. As a result of this measure, while the gross profit of the Group has dropped by approximately 26.6% to RMB74.0 million in the first half of 2018, the gross profit margin ratio of the Group has improved by approximately 2.7 percentage point in the first half of 2018.

Selling and Distribution Expenses

Selling and distribution expenses decreased by approximately 56.7% to RMB48.5 million in the first half of 2018 primarily due to the Group having ceased to make advertisement through sponsoring popular TV programs during the period under review as the Directors considered it was not the most cost effective way to promote the Group's products under current market situation. Instead, the Group put more effort in launching advertisement in other media channels during the period under review e.g. participating in various food fairs and exhibitions, collaborating with distributors and retailers for on-site promotion activities and launching advertisement in new electronic media etc. As a result of the changes in advertising strategy, advertising and promotion expenses decreased by approximately 75.2% to RMB20.2 million during the period under review.

Administrative Expenses

Administrative expenses decreased by approximately 2.6% to RMB47.2 million in the first half of 2018 as compared with the same period in 2017.

Income Tax Expense

During the six months ended 30 June 2018, the Group did not have any assessable income in Bermuda, BVI and Hong Kong. The subsidiaries in the PRC are subject to income tax rate of 25% on their taxable profit during the period. The income tax expense during the period under review was primarily due to the movements in deferred tax assets.

Net Loss for the Period

Net loss for the period was RMB52.7 million, a decrease of RMB1.9 million as compared to the net loss of RMB54.6 million for the six months ended 30 June 2017.

FINANCIAL REVIEW

Financial resources and liquidity

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

As at 30 June 2018, the bank balances and bank deposits amounted to RMB119.9 million which was RMB3.8 million more than the balance as at 31 December 2017. The increase in bank balances and bank deposits was mainly due to the increase in net cash generated from operating activities during the period.

As at 30 June 2018, the Group's gearing ratio (total bank borrowings divided by total equity) was 94.8% (As at 31 December 2017: 92.1%). The Group maintains sufficient cash and available banking facilities for its working capital requirements and for capitalizing on any potential investment opportunities in the future. The Group will from time to time make prudent financial arrangements and decisions to address changes in the domestic and international financial environment.

Cash flow

The Group recorded net cash inflow from operating activities of RMB52.6 million in the first half of 2018 (2017: RMB1.6 million) which was significantly improved from the same period in last year. The significant improvement in operating cash flow for the period under review was mainly due to smaller operating loss for the period under review. The Group has spent RMB2.4 million in investing activities in the first half of 2018 mainly for the upgrade of production lines of the production plants. The Group had net cash outflow from financing activities of RMB98.5 million in the first half of 2018 mainly due to repayment of bank loans upon maturity date net of new bank loans obtained.

Capital expenditure

During the six months ended 30 June 2018, the Group incurred RMB3.3 million in capital expenditure mainly for the upgrade of production lines of the production plants.

Inventory analysis

The Group's inventories primarily consist of finished goods of jelly products, confectionary products, beverage products and other snacks products, as well as raw materials and packaging materials. As at 30 June 2018, balance increased by RMB2.9 million from the beginning of the year. The inventories turnover days for the first half of 2018 and 2017 were 59 days and 44 days, respectively.

Trade receivables

Trade receivables mainly represent the balance due from wholesale distributors. The Group typically sells its products on credit and grant 90 days credit to most of the wholesale distributors. Balance decreased by RMB71.6 million from the beginning of the year, which was in line with the decrease in revenue. The trade receivables turnover days for the first half of 2018 and 2017 were 150 days and 102 days, respectively. Subsequent to the period end and up to the date of this Interim Report, approximately RMB91.4 million of the trade receivables were settled by the wholesale distributors.

FINANCIAL REVIEW *(Continued)*

Entrusted loan receivable

On 19 June 2015, a wholly-owned subsidiary of the Group (the "Lender") entered into an entrusted loan agreement with a PRC bank, as the lending agent, and an independent PRC third party entity (the "Borrower"), pursuant to which the Lender, agreed to grant the entrusted loan in the principal amount of RMB250,000,000 (the "Entrusted Loan") to the Borrower. The purpose of granting the Entrusted Loan by the Group was to better utilize the surplus cash of the Group under a short-term arrangement to generate higher interest income.

The Entrusted Loan is secured by (i) a personal guarantee of RMB250,000,000 provided by a controlling shareholder of the Borrower; (ii) a corporate guarantee of RMB228,783,000 given by a fellow subsidiary of the Borrower; and (iii) certain land parcels in the PRC valued at RMB30,310,000, as security to the obligations of the Borrower under the Entrusted Loan agreement. The Entrusted Loan has a term of one year and bearing interest at 0.5% per month.

As of 30 June 2018, the Borrower has drawn up an aggregate amount of RMB220,000,000 (31 December 2017: RMB220,000,000) of the Entrusted Loan with interests accrued in the amount of approximately RMB1,100,000 for the period from 19 May 2016 to 18 June 2016 (the "Outstanding Amounts"). The Entrusted Loan matured and shall be repaid by the Borrower on 18 June 2016. However, up to the date of this Interim Report, the Borrower has not repaid the Outstanding Amounts.

The Lending Bank had initiated a legal proceeding against the Borrower and guarantors on 10 March 2017. Based on the best estimate taking into account all the relevant information currently available to the Company, the Company anticipates that the recoverable amount for the Entrusted Loan would be approximately RMB128.5 million as at 30 June 2018 (31 December 2017: RMB128.5 million).

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

Trade payables and bills payable

Trade payables mainly represent the balances due to the Group's suppliers who generally grant credit terms ranging from 30 days and 60 days to the Group. Trade payables turnover days for the first half of 2018 and 2017 were 37 days and 40 days respectively.

The bills payable were secured by pledged bank deposits and were with maturity period within 1 year.

Foreign exchange fluctuations

The Group earns revenue and incurs costs and expenses mainly in Renminbi. The Group is exposed to certain foreign exchange fluctuations arising mainly from the exposure of Renminbi against Hong Kong dollar and US dollar. During the six months ended 30 June 2018, the Group did not enter into forward contracts to hedge the foreign exchange exposures as the Directors considered the financial benefits of such forward contracts may not outweigh their costs.

FINANCIAL REVIEW *(Continued)*

Charges on assets

As at 30 June 2018, land and building of the Group in Hong Kong with net book value of RMB7.2 million was pledged as security for a mortgage loan (31 December 2017: RMB7.5 million).

Contingent liabilities

As at 30 June 2018, the Group had no contingent liabilities (31 December 2017: Nil).

DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: Nil).

PROSPECT

During the period under review, the market demand on the Group's products remained weak. The sales of the Group's products remained at a low level as compared to the normal level in 2012 and 2013. Moreover, the purchase costs of certain major raw materials continued to hike during the period under review which erode the overall profit margin of the Group. To cope with this difficult market situation, during the period under review, the Group decided to cease the production of the majority of its low margin products items to improve the overall profitability of the Group. In addition, the Group also ceased to make advertisement through sponsoring popular TV programs during the period under review as the Directors considered that it was not the most cost effective way to promote the Group's products under current market situation. Instead, the Group put more effort in launching advertisement in other media channels during the period under review e.g. participating in various food fairs and exhibitions, collaborating with distributors and retailers for on-site promotion activities and launching advertisement in new electronic media etc.

The Group expects the snacks food industry of the PRC will undergo a market consolidation in the coming years and the operating environment of the snack food industry will remain challenging in the medium term. Under this challenging market environment, the Group will remain proactive in marketing its brand image and products through launching advertisement in various media channels in particular new electronic media.

The Group believes the measures mentioned above are to the benefit of the Group's business in longer term. The Group believes that the PRC economy will regain its growth momentum in the medium term and snacks food industry will definitely be benefitted from the economic growth in due course.

AUDITORS' INDEPENDENT REVIEW REPORT

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

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

TO THE BOARD OF DIRECTORS OF
LABIXIAOXIN SNACKS GROUP LIMITED
(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial statement set out on pages 11 to 37, which comprises the condensed consolidated statement of financial position of Labixiaoxin Snacks Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statement in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial statement based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim condensed consolidated financial statement consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statement as at 30 June 2018 are not prepared, in all material respects, in accordance with IAS 34.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 27 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Unaudited	
		Six months ended 30 June	
		2018	2017
	Note	**RMB'000**	RMB'000
Revenue	5	**285,883**	435,175
Cost of sales		**(211,883)**	(334,290)
Gross profit		**74,000**	100,885
Other income	6	**4,680**	6,001
Other gain, net	7	**150**	1,608
Selling and distribution expenses		**(48,540)**	(112,128)
Administrative expenses		**(47,238)**	(48,501)
Operating loss		**(16,948)**	(52,135)
Finance income		**913**	962
Finance costs		**(24,380)**	(21,455)
Finance costs, net	8	**(23,467)**	(20,493)
Loss before taxation	9	**(40,415)**	(72,628)
Taxation	10	**(12,278)**	18,002
Loss and total comprehensive loss for the period		**(52,693)**	(54,626)
Loss per share attributable to equity holders of the Company (RMB per share)			
– Basic	11(a)	**(0.040)**	(0.041)
– Diluted	11(b)	**(0.040)**	(0.041)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	**Unaudited 30 June 2018 RMB'000**	Audited 31 December 2017 RMB'000
ASSETS			
Non-current assets			
Land use rights	13	**132,683**	134,342
Property, plant and equipment	13	**913,213**	944,129
Deposits for property, plant and equipment		**40,533**	41,170
Deferred income tax assets		**118,212**	130,490
		1,204,641	1,250,131
Current assets			
Inventories		**66,924**	63,976
Trade receivables	14	**234,314**	305,946
Prepayments and other receivables		**149,129**	131,788
Loan receivable	15	**128,500**	128,500
Pledged bank deposits	16	**95,359**	43,300
Cash and cash equivalents		**24,519**	72,833
		698,745	746,343
Total assets		**1,903,386**	1,996,474

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 June 2018

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**470,030**	470,030
Share premium		**615,656**	615,656
Other reserves		**102,126**	102,126
Accumulated losses		**(390,239)**	(337,546)
Total equity		**797,573**	850,266
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**31,540**	31,540
Bank Borrowings	18	**180,000**	200,000
		211,540	231,540
Current liabilities			
Trade and other payables	17	**315,963**	331,429
Contract liabilities		**2,121**	–
Bank Borrowings	18	**576,189**	583,239
		894,273	914,668
Total liabilities		**1,105,813**	1,146,208
Total equity and liabilities		**1,903,386**	1,996,474
Net current liabilities		**(195,528)**	(168,325)
Total assets less current liabilities		**1,009,113**	1,081,806

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Share option reserve RMB'000	Currency translation reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance as at 1 January 2018	**470,030**	**615,656**	**(87,600)**	**170,995**	**17,914**	**(41)**	**858**	**(337,546)**	**850,266**
Loss and total comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(52,693)**	**(52,693)**
Balance as at 30 June 2018	**470,030**	**615,656**	**(87,600)**	**170,995**	**17,914**	**(41)**	**858**	**(390,239)**	**797,573**
Balance as at 1 January 2017	470,030	615,656	(87,600)	170,995	27,452	(41)	858	(57,679)	1,139,671
Loss and total comprehensive loss for the period	–	–	–	–	–	–	–	(54,626)	(54,626)
Employee share-based payments	–	–	–	–	1,109	–	–	–	1,109
Balance as at 30 June 2017	470,030	615,656	(87,600)	170,995	28,561	(41)	858	(112,305)	1,086,154

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	**52,605**	1,582
Income tax paid	**–**	–
Net cash generated from operating activities	**52,605**	1,582
Cash flows from investing activities		
Purchases of property, plant and equipment	**(1,925)**	(4,704)
Deposits paid for property, plant and equipment	**(1,388)**	(58,253)
Interest received	**913**	962
Net cash used in investing activities	**(2,400)**	(61,995)
Cash flows from financing activities		
Proceeds from shareholder's loan	**4,780**	40,994
Repayment of shareholder's loan	**(20)**	–
Proceeds from bank borrowings	**192,800**	319,949
Repayment of bank borrowings	**(219,850)**	(320,689)
Interest paid	**(24,170)**	(21,455)
(Increase)/decrease in pledged bank deposit	**(52,059)**	1,496
Net cash (used in)/generated from financing activities	**(98,519)**	20,295
Net decrease in cash and cash equivalents	**(48,314)**	(40,118)
Cash and cash equivalents at the beginning of the period	**72,833**	227,303
Cash and cash equivalents at the end of the period	**24,519**	187,185

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "**Group**") are manufacturing and sale of jelly products, confectionery products, beverages products and other snacks products.

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

The condensed consolidated interim financial statements is presented in thousands of units of Renminbi ("**RMB'000**"), unless otherwise stated. The condensed consolidated interim financial statements has not been audited.

2 BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting". The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

This interim financial report has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group as at 30 June 2018 amounting to RMB195,528,000. The directors are of the opinion that, based on a review of the forecasted cash flows, the unutilised banking facilities and the unutilised credit lines with banks as at 30 June 2018, the Group will have necessary liquid funds to finance its working capital and capital expenditure.

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing the condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2017 except the changes in accounting polices set out at Note 3.

3 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD "IFRSs"

The accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2017, except as mentioned below:

IFRS 2 (Amendments)	Classification and Measurement of Share-Based Payment Transaction
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 15 (Amendments)	Classification to IFRS 15 Revenue from Contract with Customer
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IAS 28 (Amendments)	As part of the Annual Improvements to IFRS 2014-2016 Cycle
IAS 40 (Amendments)	Transfers of Investment Property

3 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD "IFRSs" *(Continued)*

The new and amendments to IFRSs have been applied in accordance with the relevant transition provision in the respective standards and amendements which results in changes in accounting policies, amount reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from contracts with customers

The group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 15 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources:

- Sale of goods
- Interest income
- Rental income

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Furthermore, in accordance with the transition provision in IFRS 15, the Group has elect to apply the standard retrospectively only to the contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected as the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations.

Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5 step approach when recognizing revenue:

Step 1: Identify the contracts with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligation in the contract

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

3 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD "IFRSs" *(Continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from contracts with customers *(Continued)*

Key changes in accounting policies resulting from application of IFRS 15 *(Continued)*

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for the goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group's business model is straight forward and its contracts with customers for the sale of jelly products, confectionary products, beverages products and other snacks products, which include only single performance obligation. The Group has concluded that revenue from sale should be recognised at the point in time when a customer obtains control. The Group has concluded that the initial application of IFRS 15 does not have a significant impact on the Group's revenue recognition.

3 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD "IFRSs" *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRs. IFRS 9 introduce new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for the financial assets and contract assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provision set out in IFRS 9 i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that not been derecognied as at 1 January 2018 (date of initial application) with the cumulative effect of initial application recognised at the date of initial application and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD "IFRSs" *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments *(Continued)*

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, other receivables and loan receivable). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, other receivables and loan receivable without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD "IFRSs" *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments *(Continued)*

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 35 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD "IFRSs" *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments *(Continued)*

Significant increase in credit risk (Continued)

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, other receivables and load receivable where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The Directors concluded that there has no significant impact on the adoption of IFRS 9.

4 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to market risks (including currency risk and interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial statements does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

There have been no changes in the risk management department since year end or in any risk management policies since the year end.

5 SEGMENT INFORMATION

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

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

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

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

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

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

During the six months ended 30 June 2018, none of the individual customer account for 10% or more of the Group's external revenue (2017: none). As at 30 June 2018 and 31 December 2017, majority of the Group's assets, liabilities and capital expenditure are located and utilised in the PRC.

5 SEGMENT INFORMATION *(Continued)*

	Unaudited Six months ended 30 June 2018				
	Jelly products RMB'000	Confectionery products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Revenue					
Sales to external customers	238,169	29,926	14,503	3,285	285,883
Cost of sales	(171,972)	(27,601)	(10,290)	(2,020)	(211,883)
Gross profit	66,197	2,325	4,213	1,265	74,000
Results of reportable segments	25,721	(2,719)	1,746	712	25,460

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

	Unaudited Six months ended 30 June 2018				
	Jelly products RMB'000	Confectionery products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Results of reportable segments					25,460
Corporate income					4,680
Corporate expenses					(47,088)
Operating loss					(16,948)
Finance income					913
Finance costs					(24,380)
Loss before taxation					(40,415)
Taxation					(12,278)
Loss for the period					(52,693)
Amounts included in the measure of segment profit or loss:					
Amortisation of land use rights	1,191	–	468	–	1,659
Depreciation of property, plant and equipment	32,631	–	2,100	135	34,866

5 SEGMENT INFORMATION *(Continued)*

	Unaudited Six months ended 30 June 2017				
	Jelly products RMB'000	Confectionery products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Revenue					
Sales to external customers	328,771	67,537	16,818	22,049	435,175
Cost of sales	(242,984)	(58,352)	(14,972)	(17,982)	(334,290)
Gross profit	85,787	9,185	1,846	4,067	100,885
Results of reportable segments	1,289	(7,923)	(3,098)	(1,511)	(11,243)

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

	Unaudited Six months ended 30 June 2017				
	Jelly products RMB'000	Confectionery products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Results of reportable segments					(11,243)
Corporate income					7,613
Corporate expenses					(48,505)
Operating loss					(52,135)
Finance income					962
Finance costs					(21,455)
Loss before taxation					(72,628)
Taxation					18,002
Loss for the period					(54,626)
Amounts included in the measure of segment profit or loss:					
Amortisation of land use rights	1,191	–	468	–	1,659
Depreciation of property, plant and equipment	17,576	–	19,509	334	37,419
Loss on disposal of property, plant and equipment	4	–	–	–	4

6 OTHER INCOME

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Rental income	**4,584**	4,119
Gain on sale of scrap materials	**96**	1,882
	4,680	6,001

7 OTHER GAIN, NET

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment	**–**	(4)
Reversal of impairment on trade receivables	**150**	–
Net exchange gain	**–**	1,612
	150	1,608

8 FINANCE COSTS, NET

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Finance costs:		
Interest expenses on bank borrowings	**(24,170)**	(21,182)
Interest expenses on loan from a director	**(210)**	(273)
Total finance costs	**(24,380)**	(21,455)
Finance income:		
Interest income on bank deposits	**913**	962
Total finance income	**913**	962
Finance costs, net	**(23,467)**	(20,493)

9 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Cost of inventory sold	**158,490**	260,890
Advertising and promotion expenses	**20,240**	81,474
Freight and transportation expenses	**606**	2,046
Staff cost (including directors' remunerations)		
– Salaries and bonuses	**45,846**	54,258
– Employer's contribution to defined contribution plans	**3,066**	6,604
– Employee share-based payments	**–**	1,109
Depreciation of property, plant and equipment	**34,866**	37,419
Amortisation of land use rights	**1,659**	1,659

10 TAXATION

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current income tax – PRC Enterprise Income Tax	**–**	–
Deferred income tax, net	**12,278**	(18,002)
Income tax charged/(credited) to profit or loss	**12,278**	(18,002)

PRC Enterprise Income Tax

PRC Enterprise Income Tax has been provided at rate of 25% (2017: 25%) on taxable profit of Group's PRC subsidiaries during the six months ended 30 June 2018.

No provision has been made for Enterprise Income Tax in PRC as the Group did not generate any taxable profit subject to PRC Enterprise Income Tax during the six months ended 30 June 2018 (2017: Nil).

Hong Kong Profits Tax, Bermuda and BVI income tax

No provision of Hong Kong Profits Tax, Bermuda and BVI income tax has been made, as the Group did not generate any assessable profits in these jurisdictions during the six months ended 30 June 2018 (2017: Nil).

11 LOSS PER SHARE

(a) Basic loss per share

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

	Unaudited Six months ended 30 June	
	2018	2017
Net loss attributable to the equity holders of Company (RMB'000)	**(52,693)**	(54,626)
Weighted average number of ordinary shares in issue for basic loss per share ('000)	**1,328,977**	1,328,977
Basic loss per share (RMB per share)	**(0.040)**	(0.041)

(b) Diluted loss per share

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

12 DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: Nil).

13 CAPITAL EXPENDITURE

	Land use rights RMB'000	Property, plant and equipment RMB'000	Total RMB'000
Six months ended 30 June 2018			
Cost			
As at 1 January 2018	165,820	2,190,417	2,356,237
Additions	–	3,950	3,950
Disposals	–	–	–
As at 30 June 2018	165,820	2,194,367	2,360,187
Accumulated amortisation/depreciation			
As at 1 January 2018	31,478	1,246,288	1,277,766
Amortisation/depreciation	1,659	34,866	36,525
Disposals	–	–	–
As at 30 June 2018	33,137	1,281,154	1,314,291
Net book value			
As at 30 June 2018	132,683	913,213	1,045,896

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

As at 30 June 2018, a property in Hong Kong with net book value of approximately RMB7,210,000 was pledged to a bank as securities for a banking facility granted to the Group (31 December 2017: RMB7,467,000).

13 CAPITAL EXPENDITURE *(Continued)*

	Land use rights RMB'000	Property, plant and equipment RMB'000	Total RMB'000
Six months ended 30 June 2017			
Cost			
As at 1 January 2017	165,820	2,059,347	2,225,167
Additions	–	26,770	26,770
Disposals	–	(38)	(38)
As at 30 June 2017	165,820	2,086,079	2,251,899
Accumulated amortisation/depreciation			
As at 1 January 2017	28,162	1,129,711	1,157,873
Amortisation/depreciation	1,659	37,419	39,078
Disposals	–	(34)	(34)
As at 30 June 2017	29,821	1,167,096	1,196,917
Net book value			
As at 30 June 2017	135,999	918,983	1,054,982

14 TRADE RECEIVABLES

The Group allows a generally credit period of 90 days to its trade customers.

The following is an analysis of trade receivables by age, presented based on the invoice date net of allowance for doubtful debts.

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Less than 30 days	**53,430**	136,761
31 days – 90 days	**101,546**	148,134
Over 90 days	**79,338**	21,051
	234,314	305,946

15 LOAN RECEIVABLE

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

As of 30 June 2018, the Borrower has drawn up an aggregate amount of RMB220,000,000 (31 December 2017: RMB220,000,000) of the Entrusted Loan with interests accrued in the amount of approximately RMB1,100,000 for the period from 19 May 2016 to 18 June 2016 (the "**Outstanding Amounts**"). The Entrusted Loan was matured and shall be repaid by the Borrower on 18 June 2016. However, up to the date of this Interim Report, the Borrower has not repaid the Outstanding Amounts.

The Lending Bank had initiated a legal proceeding against the Borrower and guarantors on 10 March 2017. Based on the best estimate taking into account all the relevant information currently available to the Company, an impairment of approximately RMB92,600,000 has been provided in the consolidated financial statements of the Group for the year ended 31 December 2016.

In order to estimate a reliable recoverable amount of the Entrusted Loan as at 30 June 2018, 31 December 2017 and 30 June 2017, the directors of the Company have considered the market value of the pledged land and buildings. Although the Entrusted Loan was also secured by the personal and corporate guarantees, the directors of the Company at this stage are unable to ascertain whether the guarantors have the ability to fully repay the Outstanding Amounts. Hence, the impairment was provided.

16 PLEDGED BANK DEPOSITS

As at 30 June 2018, pledged bank deposits of the Group of approximately RMB95,359,000 (31 December 2017: RMB43,300,000) were with initial terms of over three months and pledged to banks as security for bills payable.

The weighted average effective interest rate of these bank deposits as at 30 June 2018 was 1.46% per annum (31 December 2017: 1.24% per annum).

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

17 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Trade payables	**31,140**	80,026
Bills payable (Note (i))	**175,810**	138,000
Accrued sales rebates	**5,865**	15,781
Other accrued expenses	**6,078**	11,016
Loan from a director (Note (ii))	**27,419**	22,660
Directors' fees and emoluments payable	**9,938**	8,836
Other payables and sundry creditors	**59,713**	55,110
	315,963	331,429

Note:

(i) Bills payable amounting to approximately RMB175,810,000 (31 December 2017: RMB93,000,000) were secured by pledged bank deposits of approximately RMB95,359,000 (31 December 2017: RMB43,300,000). The bills payable were with maturity period within 1 year.

(ii) On 29 December 2017, the Company entered into a loan facility of RMB40,000,000 with Mr. Zheng Yu Long, an executive director of the Company. As at 30 June 2018, the Company had drawn down approximately RMB27,419,000 (As at 31 December 2017: RMB22,660,000). The amount is unsecured, repayable on 31 December 2018 and bears interest at 2% per annum.

The credit periods granted by suppliers generally range from 30 to 60 days. As at 30 June 2018, the ageing analysis of trade payables based on invoice date is as follows:

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Less than 30 days	**20,958**	73,513
31 days – 90 days	**9,301**	6,246
Over 90 days	**881**	267
	31,140	80,026

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

18 BANK BORROWINGS

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Secured bank borrowings	**476,189**	483,239
Unsecured bank borrowings	**280,000**	300,000
Total bank borrowings	**756,189**	783,239
Carrying amount of bank borrowings wholly repayable:		
On demand or within 1 year	**576,189**	583,239
More than 1 year but not exceeding 2 years	**180,000**	200,000
More than 2 years but not more than 5 years	**–**	–
	756,189	783,239
Less: amounts shown under current liabilities	**(576,189)**	(583,239)
Amounts shown under non-current liabilities	**180,000**	200,000

As at 30 June 2018, the bank borrowing of approximately HKD3,050,000 (equivalent to approximately RMB2,539,000) (31 December 2017: RMB2,789,000) was secured by the land and buildings of approximately RMB7,210,000 (31 December 2017: RMB7,467,000) and charged at a floating interest rate of HIBOR + 2.25% which was re-pricing every month.

As at 30 June 2018, the short-term secured bank borrowings of approximately RMB156,650,000 (31 December 2017: RMB142,850,000) were secured by corporate guarantee by inter-group companies. The bank borrowings were repayable within 12 months and charged at floating interest rates of 4.92% to 5.05% (31 December 2017: 4.92% to 5.05%) per annum which was repricing every 12 months.

As at 30 June 2018, the short-term secured bank borrowings of approximately RMB59,000,000 (31 December 2017: RMB60,000,000) were secured by corporate guarantee by inter-group companies. The bank borrowings were repayable within 12 months and charged at floating interest rates of 5.92% (31 December 2017: at floating interest rates of 5.71%) which was repricing every 3 months.

As at 30 June 2018, the short-term secured bank borrowings of approximately RMB198,000,000 (31 December 2017: RMB198,000,000) were secured by corporate guarantee by inter-group companies and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company. The bank borrowings were repayable within 12 months and charged at floating interest rates of 5.22% to 5.44% (31 December 2017: at floating rate of 5.22% to 5.44%) per annum which was repricing every 3 months.

18 BANK BORROWINGS *(Continued)*

As at 30 June 2018, the short-term secured bank borrowings of approximately RMB60,000,000 (31 December 2017: RMB60,000,000) were secured by corporate guarantee by inter-group companies and personal guarantees of Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company, and wife of Mr. Zheng Yu Shuang. The bank borrowing were repayable within 12 months and charged at fixed interest rates of 5.66% (31 December 2017: 5.66%) per annum.

As at 30 June 2018, short-term unsecured bank borrowings of RMB100,000,000 (31 December 2017: RMB100,000,000) were repayable within 12 months and charged at fixed interest rate of 5.22% to 5.74% (31 December 2017: 5.22% to 5.74%) per annum.

As at 30 June 2018, long-term unsecured bank borrowings of RMB180,000,000 (31 December 2017: RMB200,000,000) were repayable within 2 years and charged at fixed interest rate of 5.70% (31 December 2017: 5.70%) per annum.

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

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

19 LITIGATION

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

(i) repayment of (a) the principal amount of the Entrusted Loan in the amount of RMB220,000,000; together with (b) the interests to be accrued for the period from 21 May 2016 up till the date of actual repayment;

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

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

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

Up to the date of the report, no judgment has been made by the Court. The directors of the Company will follow closely on the development of the above matters and inform the shareholders of the Company on a timely basis.

20 COMMITMENTS

Capital commitments

As at 30 June 2018, the Group had the following capital commitments in respect of land use right and property, plant and equipment:

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Authorised but not contracted for		
– Land use right	**50,000**	50,000
Contracted but not provided for		
– Property, plant and equipment	**652**	–
	50,652	50,000

21 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Key management personnel compensation:

	Unaudited Six months ended 30 June	
	2018 **RMB'000**	2017 RMB'000
Directors' fee	**500**	540
Salaries and other employee benefits	**2,113**	2,254
	2,613	2,794

(b) Loan from a director

On 29 December 2017, the Company entered into a loan facility of RMB40,000,000 with Mr. Zheng Yu Long, an executive director of the Company. The Company has drawn down RMB27,419,000 as at 30 June 2018 (31 December 2017: RMB22,660,000). The amount is unsecured, repayable on 31 December 2018 and bears fixed interest at 2% per annum.

(c) Personal guarantee provided by directors

Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company, have provided personal guarantee for bank borrowings of the Group of approximately RMB258,000,000. The bank borrowings are repayable within one year.

22 EVENTS AFTER REPORTING PERIOD

On 18 May 2018, the Company, Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd. ("Labixiaoxin Fujian"), a limited liability company established under the laws of the People's Republic of China (the "PRC") and an indirectly wholly owned subsidiary of the Company, entered into a letter of intent (the "LOI") with Fujian Jinjiang Ou Dian Supply Chain Management Company Limited（福建省晉江市歐點供應鏈管理有限公司）("Ou Dian"), a limited liability company established under the laws of the PRC, pursuant to which OU Dian (or through its related or designated company), as purchaser, intends to acquire and Labixiaoxin Fujian, as vendor, intends to dispose (the "Potential Disposal") of the land located at Jinjian Food Industrial Park（晉江市食品產業園）with a total site area of approximately 100,000 square meters together with the buildings thereon with an aggregate site area of approximately 106,000 square meters.

Pursuant to the LOI, Ou Dian has been granted an exclusivity period for 60 days, The original exclusivity period shall expire on 17 July 2018.

On 17 July 2018, the Company, Labixiaoxin Fujian and Ou Dian, entered into a supplemental letter of intent to extend the original exclusivity period to 16 September 2018.

For more details, please refer to the announcement date 17 July 2018 and 18 May 2018.

OTHER INFORMATION

SHARE OPTION SCHEME

On 23 September 2011, the Company conditionally adopted a share option scheme (the "**Share Option Scheme**") whereby the board of Directors (the "**Board**") can grant options for the subscription of shares of the Company (the "**Shares**") to any directors of the Company ("**Directors**"), employees and officers of any member of the Group and any advisers, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners and service providers of any member of the Group who the Board considers that they will contribute or have contributed to the Group (the "**Eligible Participants**") as described in the Share Option Scheme in order to serve as compliment and to reciprocate their contribution to the Group. The maximum number of Shares that can be issued according to the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") are applicable) shall not exceed 10% of the aggregate number of the shares in issue as at the date of the Listing which was 112,560,000 Shares, representing approximately 8.5% of the issued share capital of the Company as at the date of this Interim Report. The total number of Shares which may be issued upon exercise of all the options granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the aggregate number of the Shares in issue from time to time. Unless otherwise approved by the shareholders of the Company, the number of Shares that may be granted to an Eligible Participant (including both exercised, cancelled and outstanding options) under the Share Option Scheme or any other share option scheme adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) in any 12 month period must not exceed 1% of the Shares in issue. There is no minimum period that the options must be held before they become exercisable, and the options granted shall be exercised within the period decided by the Board, however no options shall be exercised 10 years after they have been granted. The exercise price of the option shall be the higher of (a) the closing price of the Shares on the daily quotation sheet of the Stock Exchange on the date of grant; (b) the average closing price of the Shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) nominal value of the Share on the date of grant. Each grantee shall pay a consideration of HK$1.00 at the time the option is granted. The Share Option Scheme shall take effect from the date it is granted and shall remain effective within a period of 10 years from that relevant date of grant.

MOVEMENTS OF THE SHARE OPTIONS GRANTED UNDER THE SHARE OPTION SCHEME

No options have been granted during the six months ended 30 June 2018 (2017: Nil).

Movement of the share options during the six months ended 30 June 2018 are as follows:

	Number of ordinary shares subject to share options granted under the Share Option Scheme				
Grantee and position	**Outstanding as at 1 January 2018**	**Granted during the period ended 30 June 2018**	**Exercised during the period ended 30 June 2018**	**Lapsed during the period ended 30 June 2018**	**Outstanding as at 30 June 2018**
Other employees	93,000,000	–	–	–	93,000,000

OTHER INFORMATION *(Continued)*

INTEREST AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 June 2018, the interest and short positions of the Directors and the chief executives and their associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules (the "**Model Code**"), are as follows:

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

Name of Director/ Chief Executive	Nature of Interest	Number of Shares interested	Approximate percentage of interest in the Company	Note
Zheng Yu Long	Interest of a controlled corporation	610,915,527	45.97%	1
	Beneficial owner	119,935,060	9.02%	2
Zheng Yu Shuang	Interest of a controlled corporation	610,915,527	45.97%	1
Zheng Yu Huan	Interest of a controlled corporation	610,915,527	45.97%	1
Li Hung Kong	Interest of a controlled corporation	610,915,527	45.97%	1
Ren Yunan	Interest of a controlled corporation	100,000,000	7.52%	3

Note:

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

(2) In addition to the 610,915,527 Shares held through Alliance Holding, Zheng Yu Long is also personally and beneficially interested in 119,935,060 Shares.

(3) Mr. Ren Yunan is the sole director of and interested in the entire issued share capital of Thriving Market Limited. As at 30 June 2018, Thriving Market Limited was holding 100,000,000 unlisted warrants of the Company issued on 1 September 2014 pursuant to the subscription agreement dated 18 August 2014 between the Company and Thriving Market Limited. Upon the full exercise of the subscription rights attaching to such 100,000,000 warrants, Thriving Market Limited will hold approximately 7.0% of the enlarged issued share capital of the Company (assuming that there will not be any change in the issued share capital of the Company before the exercise of such subscription rights).

OTHER INFORMATION *(Continued)*

INTEREST AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES *(Continued)*

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

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

Save as disclosed above, as at 30 June 2018, none of the Directors and the chief executive of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 30 June 2018, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name of shareholder	Beneficial owner	Interest of a controlled corporation	Investment manager	Total interest in shares	Approximate percentage of shareholding	Note
Alliance Holding	610,915,527	–	–	610,915,527(L)	45.97%	2
Zheng Yu Long	119,935,060	610,915,527	–	730,850,587(L)	54.99%	2
Zheng Yu Shuang	–	610,915,527	–	610,915,527(L)	45.97%	2
Zheng Yu Huan	–	610,915,527	–	610,915,527(L)	45.97%	2
Li Hung Kong	–	610,915,527	–	610,915,527(L)	45.97%	2
Thriving Market Limited	100,000,000	–	–	100,000,000(L)	7.52%	3
Ren Yunan	–	100,000,000	–	100,000,000(L)	7.52%	3

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS (Continued)

Notes:

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

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

(3) Mr. Ren Yunan is the sole director of and interested in the entire issued share capital of Thriving Market Limited. As at 30 June 2018, Thriving Market Limited was holding 100,000,000 unlisted warrants of the Company issued on 1 September 2014 pursuant to the subscription agreement dated 18 August 2014 between the Company and Thriving Market Limited. Upon the full exercise of the subscription rights attaching to such 100,000,000 warrants, Thriving Market Limited will hold approximately 7.0% of the enlarged issued share capital of the Company (assuming that there will not be any change in the issued share capital of the Company before the exercise of such subscription rights).

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2018.

CONNECTED TRANSACTION

On 29 December 2017, the Company entered into a loan agreement with Mr. Zheng Yu Long, an executive director of the Company, for a loan facility of RMB40,000,000. As at 30 June 2018, the Company had drawn down RMB27,419,000. The amount is unsecured, repayable on 31 December 2018 and bears fixed interest at 2% per annum.

Under the Listing Rules, Mr. Zheng Yu Long is a connected person to the Company and the loan facility constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Since such transaction is conducted on normal commercial terms or better and is not secured by the assets of the Group, it is fully exempt from Shareholders' approval, annual review and all disclosure requirements according to Rule 14A.90 of the Listing Rules.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2018, the Group had approximately 1,540 employees and total remuneration expenses for the first half of 2018 amounted to RMB48.9 million. The employees' salaries are reviewed and adjusted annually based on employee's performance and experience. The Group's employee benefits include performance bonus, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff.

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

Reference is made to the announcements of the Company dated 18 May 2018 and 17 July 2018, pursuant to which an indirectly wholly-owned subsidiary of the Company entered into a letter of intent with an independent third party, setting out the Company's intention to dispose of the land located at Jinjian Food Industrial Park（晉江市食品產業園）(the "**Potential Disposal**"). As at the date of this interim report, no definitive agreement has been entered into in relation to the Potential Disposal.

Save as otherwise, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies during the six months ended 30 June 2018. Further, there was no plan authorised by the Board for other material investments or additional capital assets as at the date of this interim report.

OTHER INFORMATION *(Continued)*

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") was established in compliance with Rules 3.21 and 3.22 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with written terms of reference in compliance with the Code Provision on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Chung Yau Tong (chairman), Mr. Li Zhi Hai and Ms. Sun Kam Ching.

The Audit Committee has reviewed with the Company's management and the Group's auditor the accounting principles and practices adopted by the Group. The Audit Committee and the Group's auditor have also reviewed the interim results of the Group for the six months ended 30 June 2018.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain a high standard of corporate governance. For the six months ended 30 June 2018, the Board is of the view that the Company has complied with CG Code and there has been no deviation from the code provisions set forth therein.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. The Company has made specific enquiries with all directors of the Company and all the directors of the Company have confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the six months ended 30 June 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and within the knowledge of the Directors, the Company maintained adequate public float throughout the period for the six months ended 30 June 2018.