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

(Incorporated in Bermuda with limited liability)

Stock Code: 1262

ANNUAL REPORT 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 annual report)

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

Li Zhi Hai
Sun Kam Ching
Chung Yau Tong

COMPANY SECRETARY

Chan Yee Lok

AUTHORIZED REPRESENTATIVES

Zheng Yu Shuang
Chan Yee Lok

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITORS

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

LEGAL ADVISOR

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

PRINCIPAL SHARE REGISTRAR

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

HONG KONG SHARE REGISTRAR

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

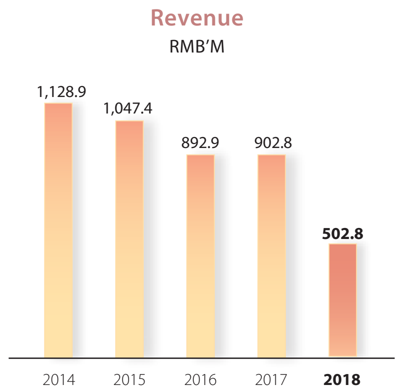
PRINCIPAL BANKERS

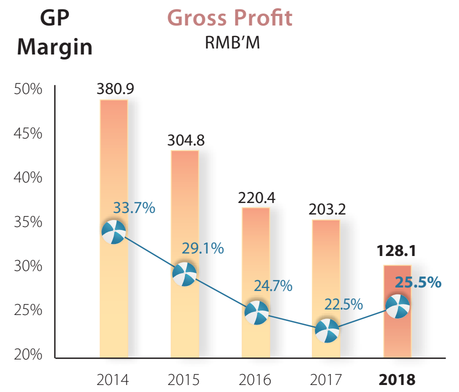
Construction Bank of China, Jinjiang Branch
Construction Bank Building
Zeng Jin Area, Qing Yang
Jinjiang, Fujian
PRC

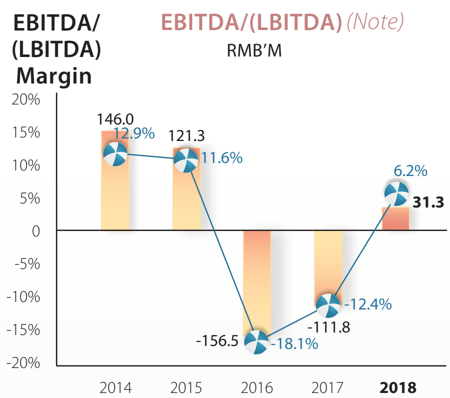
Ping An Bank Co., Ltd., Quanzhou Branch
1/F, Jun Yi Building, 311 Fengze Street
Quanzhou, Fujian
PRC

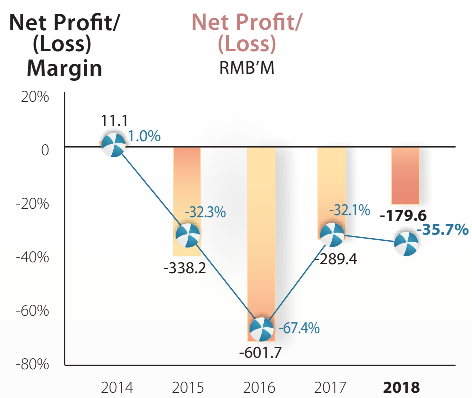
China CITIC Bank, Quanzhou Branch
1-2/F, Renmin Yinhang Building
Quanzhou, Fujian
PRC

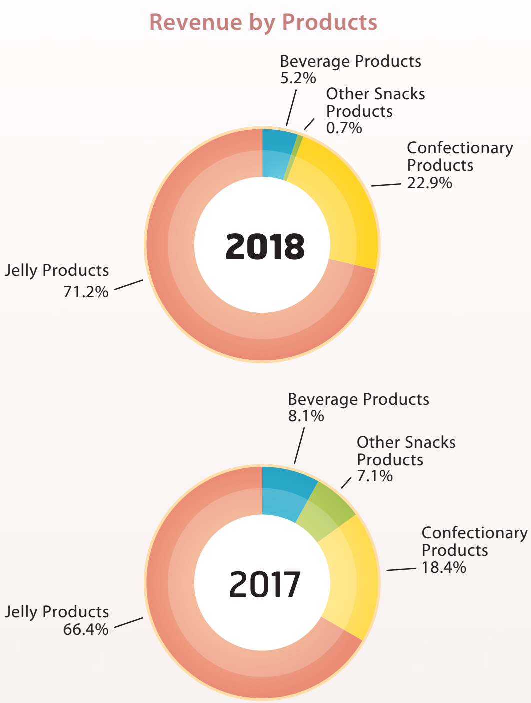
Financial Highlights

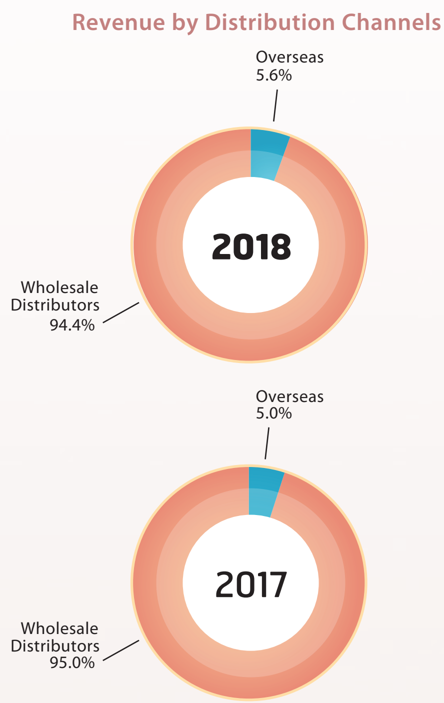












Note: EBITDA/(LBITDA) refers to profit/(loss) before interests, income tax, depreciation, amortisation, non-cash share-based payments, impairment loss on property, plant and equipment, impairment losses on loan receivable and reversal of credit losses on trade receivable.

Financial Summary

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**502,502**	902,795	892,854	1,047,368	1,128,925
Gross profit	**128,119**	203,245	220,445	304,759	380,873
(Loss)/profit before taxation	**(191,901)**	(327,892)	(635,630)	(328,662)	28,608
Taxation	**12,307**	38,487	33,964	(9,559)	(17,494)
(Loss)/profit and total comprehensive (loss)/income for the year	**(179,594)**	(289,405)	(601,666)	(338,221)	11,114

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**1,169,947**	1,250,131	1,362,192	1,510,210	1,536,051
Current assets	**524,400**	746,343	871,066	731,162	739,133
Total assets	**1,694,347**	1,996,474	2,233,258	2,241,372	2,275,184
Equity					
Total equity	**667,357**	850,266	1,139,671	1,616,278	1,946,585
Liabilities					
Non-current liabilities	**19,233**	231,540	231,540	31,429	28,733
Current liabilities	**1,007,757**	914,668	862,047	593,665	299,866
Total liabilities	**1,026,990**	1,146,208	1,093,587	625,094	328,599
Total equity and liabilities	**1,694,347**	1,996,474	2,233,258	2,241,372	2,275,184

Chairman's Statement

Dear shareholders,

I am pleased to present the annual report of Labixiaoxin Snacks Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2018 and extend my gratitude to all the shareholders on behalf of the board (the "**Board**") of directors (the "**Director(s)**") of the Company.

Year 2018 was a challenging year for us. The consumer sentiment in the People's Republic of China (the "**PRC**") was weak due to the slowdown in its GDP growth and the outbreak of trade war between the PRC and the United States in the second quarter of the year. During the year ended 31 December 2018, the Group was undergoing a restructure of its product mix to eliminate most of the low margin products so as to improve its 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 year under review as the sales performance of the higher margin products had not fully filled up the gap left by those low margin products. In addition, to make its marketing and promotion efforts more focused and efficient, the Group had ceased to make advertisement through sponsoring popular TV programs during the year 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 year under review. For example, participating in various food fairs and exhibitions, collaborating with distributors and retailers for on-site promotion activities and launching advertisement in new electronic media and etc. As a result of the changes in advertising strategy, the Group's advertising and promotion expenses decreased by approximately 78.1% to RMB37.4 million during the year under review.

During the year ended 31 December 2018, sales of the Group's products had dropped significantly when compared with the year ended 31 December 2017 due to the reasons mentioned above. The Group's revenue for the year ended 31 December 2018 was RMB502.8 million, representing a decrease of approximately 44.3% as compared to the year ended 31 December 2017. The gross profit margin of the Group for the year ended 31 December 2018 increased by approximately 3.0 percentage points, as compared to Year 2017 due to the Group having eliminated most of its low margin products. For the year ended 31 December 2018, the Group recorded a net loss of RMB179.6 million, a decrease of 37.9% from the net loss of RMB289.4 million for the year ended 31 December 2017.

During the year ended 31 December 2018, the Group had spent RMB14.7 million in capital expenditure mainly for the upgrade of production lines in various production plants. In 2018, the Group had RMB88.9 million net operating cash inflow, representing a significant improvement from the net operating cash outflow of RMB68.5 million in the year ended 31 December 2017. As at 31 December 2018, the gearing ratio of the Group was 106.1%. The Group is committed to maintaining sufficient cash and available banking facilities for its working capital requirements and for capitalising on any potential investment opportunities in the future.

With the consumer sentiment in the PRC remaining weak, the market demand for the Group's snack products continued to decline during the year ended 31 December 2018. The Directors considered that a complete and strong recovery will not happen in the short term. To build a solid foundation for mid-to-long term growth, the Group is committed to (i) taking proactive steps in marketing its brand image and products in 2019, (ii) launching new jelly and beverages products from time to time to offer better choices to the consumers and (iii) restructuring and consolidating its production facilities to enhance its production and logistic efficiency. The Directors believe that these measures will bring positive impacts to the Group's financial performance in the longer run.

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

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

Yours sincerely

ZHENG YU HUAN
Chairman


ANGRY BIRDS
Assorted taste
综合口味
可吸果冻
蜡笔小新
Finest Selection
燕麦巧克力
CHOCOLATE
净含量/规格:280克

嗒笔小新
ANGRY BIRDS
麦丽素!
Mailisu
my likes chocolate products
净含量:80g 麦丽素巧克力
哎呀,来一
你要的滋味

Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31 December 2018, Labixiaoxin Snacks Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") has reported revenue of approximately RMB502.8 million, representing a decrease of approximately 44.3% as compared with the year ended 31 December 2017. The decrease in the reported revenue was mainly due to poor consumer sentiment of the snack products in the People's Republic of China (the "**PRC**"). In addition, the decrease in revenue was also due to the Group having ceased the production of the majority of low margin product 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 year ended 31 December 2018. The Group's gross profit margin for the year ended 31 December 2018 increased by approximately 3.0 percentage points as compared with the year ended 31 December 2017 due to the Group having ceased the production of the majority of low margin products items.

For the year ended 31 December 2018, the Group recorded a net loss of RMB179.6 million, a decrease of approximately 37.9% from the net loss of RMB289.4 million in the same period last year.

REVENUE

Revenue of the Group decreased by approximately 44.3% to RMB502.8 million for the year ended 31 December 2018 when compared with the year ended 31 December 2017. During the year ended 31 December 2018, the Group had ceased the production of the majority of low margin product items with a view to enhancing the Group's overall profitability. However, the sales performance of the higher margin products had not fully filled up the gap left by those low margin products. In addition, sales of the Group's snacks products were also negatively affected by the poor consumer sentiment of the snack products in the PRC during the year ended 31 December 2018. As at 31 December 2018, the Group had a total number of 693 distributors (As at 31 December 2017: 576).

Jelly products

Revenue generated from sales of jelly products of the Group decreased by approximately 40.3% from RMB599.2 million for the year ended 31 December 2017 to RMB357.8 million for the year ended 31 December 2018, primarily due to the Group having ceased the production of certain low margin jelly product items during the year ended 31 December 2018 which has temporary negative impact on sales of jelly products. However, the sales performance of the higher margin jelly products had not fully filled up the gap left by those low margin products. In addition, sales of jelly products were also negatively affected by the poor consumer sentiment of the snack products in the PRC during the year ended 31 December 2018. During the year ended 31 December 2018, revenue attributable to jelly snacks decreased by approximately 43.8% to RMB204.2 million while sales attributable to jelly beverages decreased by approximately 34.9% to RMB153.6 million.

Confectionary products

Revenue generated from sales of confectionary products of the Group also recorded a decline during the year ended 31 December 2018. Sales of confectionary products decreased by approximately 30.4% from RMB165.7 million for the year ended 31 December 2017 to RMB115.4 million for the year ended 31 December 2018. The decrease was mainly due to the Group having ceased the production of certain low margin confectionary product items during the year ended 31 December 2018 which has temporary negative impact on sales of confectionary products. In addition, there were fewer orders placed by overseas customers during the year ended 31 December 2018 which affected both the revenue and profit margin of the Group's confectionary products.

Beverage products

The beverages market in the PRC remained highly competitive and was dominated by several major brands. Revenue generated from sales of beverages products of the Group decreased by approximately 64.8% from RMB73.6 million for the year ended 31 December 2017 to RMB25.9 million for the year ended 31 December 2018. Although there was a decrease in sales of beverages products during the year ended 31 December 2018, the gross profit margin of the segment has improved significantly from 9.6% for the year ended 31 December 2017 to 20.7% for the year ended 31 December 2018. Improvement in gross profit margin was mainly due to the Group's effort made in the last couple of years to adjust the product mix of the beverages segment which begin to materialize.

In the last couple of years, the Group launched the fruit and vegetable beverages as the customers have become more health conscious. The Group will continue to launch new beverages products with an objective to meet the needs of different customers. Whilst the Company remains confident that the Group's beverages products are of decent quality, it is uncertain whether these products will be well perceived by the market and whether it will bring decent financial contribution to the Group.

Other snacks products

Revenue generated from sales of other snacks products dropped by approximately 94.4% from RMB64.3 million for the year ended 31 December 2017 to RMB3.6 million for the year ended 31 December 2018. Other snacks products include cakes, breads, bean curd products, milk tea and etc., which are of low or negative profit margin as the sales volume of these products had not reached the economy of scale in the recent years. With a view to improving its profitability, the Group has ceased the production of the majority of these low margin snacks product items and therefore, the sales of these products dropped significantly during the year ended 31 December 2018.

COST OF SALES AND GROSS PROFIT

Cost of sales decreased by approximately 46.4% from RMB699.6 million for the year ended 31 December 2017 to RMB374.7 million for the year ended 31 December 2018. The decrease in cost of sales was mainly attributable to the corresponding decrease in revenue due to the reasons mentioned above. Gross profit margin improved by approximately 3.0 percentage points to 25.5% from 22.5% for the year ended 31 December 2017 which was mainly due to the Group having ceased the production of the majority of low margin product items with a view to enhancing the Group's overall profitability.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses decreased by approximately 63.1% from RMB233.7 million for the year ended 31 December 2017 to RMB86.3 million for the year ended 31 December 2018 primarily due to the Group having ceased to make advertisement through sponsoring popular TV programs during the year ended 31 December 2018 as the directors of the Company (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 year ended 31 December 2018. For example, participating in various food fairs and exhibitions, collaborating with distributors and retailers for on-site promotion activities and launching advertisement in new electronic media. As a result of the changes in advertising strategy, advertising and promotion expenses decreased by approximately 78.1% to RMB37.4 million during the year ended 31 December 2018.

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

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group decreased by approximately 0.3% from RMB99.2 million for the year ended 31 December 2017 to RMB98.9 million for the year ended 31 December 2018.

OTHER LOSSES, NET

Balance of other losses, net represents the net effect of loss on disposal of property, plant and equipment and net exchange gain. During the year ended 31 December 2017, the Group had disposed of the property, plant and equipment in relation to a Tetra Pak beverages production line in Anhui production plant due to the Group's decision in ceasing the production of such packaging products and as a result, a loss on disposal of the property, plant and equipment of the Tetra Pak beverages production line of approximately RMB80.0 million was recorded. During the year ended 31 December 2018, no such significant disposal was made by the Group.

INCOME TAX EXPENSE

The credit amount of the Group's income tax expense during the year ended 31 December 2018 was mainly due to the deferred tax assets recognized for the tax losses of the Group's subsidiaries in the PRC.

NET LOSS FOR THE YEAR

The Group recorded a net loss of RMB179.6 million for the year ended 31 December 2018 (2017: RMB289.4 million). The decrease in net loss was primarily attributable to there was no provision for impairment of property, plant and equipment required for the year ended 31 December 2018 while there was RMB94.5 million of provision for impairment of property, plant and equipment recognized for the year ended 31 December 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 31 December 2018, the cash and bank balances amounted to RMB25.5 million which was RMB47.3 million less than the balance as at 31 December 2017. The decrease in cash and bank balances was mainly due to repayment of bank borrowings. The bank borrowings of the Group decreased by RMB74.9 million during the year ended 31 December 2018.

As at 31 December 2018, the Group's gearing ratio (total borrowings divided by total equity) was 106.1% (as at 31 December 2017: 92.1%). The Group maintained sufficient cash and available banking facilities for its working capital requirements and for capitalizing on any potential investment opportunities in the future. The Group will from time to time make prudent financial arrangements and decisions to address changes in the domestic and international financial environment.

Cash flow

The Group recorded net cash inflow from operating activities of RMB88.9 million for the year ended 31 December 2018 (2017: net cash outflow of RMB68.5 million). The Group has spent RMB1.8 million in investing activities for the year ended 31 December 2018 mainly for the upgrade of production lines of the production plants. The Group has net cash outflow from financing activities of RMB134.5 million for the year ended 31 December 2018 which was mainly due to repayment of matured bank borrowings and payment of interest expenses.

Capital expenditure

During the year ended 31 December 2018, the Group incurred RMB14.7 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 and beverage products, as well as raw materials and packaging materials. As at 31 December 2018, the balance decreased by RMB10.5 million from the beginning of the year. The inventories turnover days for the years ended 31 December 2018 and 2017 were 65 days and 41 days, respectively.

Trade receivables

Trade receivables mainly represent the balance due from wholesale distributors. The Group typically sells its products on credit and grants 180 days of credit period to most of the wholesale distributors. The balance decreased by RMB79.7 million from the beginning of the year mainly due to decrease in sales in December 2018 than in the corresponding period of 2017. The trade receivables turnover days for the years ended 31 December 2018 and 2017 were 152 days and 103 days, respectively. Subsequent to the year ended 31 December 2018 and up to the date of this report, approximately RMB125.5 million of the trade receivables as at 31 December 2018 were settled by the wholesale distributors.

Entrusted loan receivable

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

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

As at 31 December 2018, the Borrower has drawn up an aggregate amount of RMB220 million of the Entrusted Loan with interests accrued in the amount of approximately RMB1.1 million (the "**Outstanding Amounts**"). The Entrusted Loan matured and shall be repaid by the Borrower on 18 June 2016. However, up to the date of this annual report, the Borrower has not repaid the Outstanding Amounts.

On 10 March 2017, the Lending Bank initiated a legal proceeding (the "**Legal Proceeding**") with the Quanzhou Intermediate People's Court in the People's Republic of China (the "**Quanzhou Court**") against the Borrower as well as its fellow subsidiary and its controlling shareholder (i.e. Mr. Hong) (collectively, the "**Defendants**"). On 29 March 2018, the Quanzhou Court published a judgement to order the Borrower to (a) repay the principal amount of the Entrusted Loan in the amount of RMB220 million; (b) pay the interests (including penalty interests and compound interests) of RMB30.2 million; (c) pay the interests (including penalty interests and compound interests) to be accrued for the period from 14 November 2017 up till the date of actual repayment; and (d) pay the legal fee of RMB500,000.

If the Borrower failed to fulfill the court order stated above, the Lending Bank can force the sales of the assets (i.e. the land situated in Luojiang District, Quanzhou City, Fujian Province) charged by the Borrower to the Lending Bank pursuant to the Entrusted Loan Agreement. The Lending Bank has the priority on RMB30.31 million of the sales proceeds. In addition, 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) are jointly liable for the repayment obligation under the Entrusted Loan Agreement in the maximum amount of RMB250.0 million.

Up to the date of this annual report, the Borrower did not fulfill the court order and the Lending Bank is taking actions to force the sales of the assets charged by the Borrower pursuant to the Entrusted Loan Agreement.

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 RMB21.4 million and an impairment of approximately RMB107.1 million has been provided in the consolidated financial statements of the Group for the year ended 31 December 2018.

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

Trade payables

Trade payables mainly represent the balances due to the Group's suppliers who generally grant credit terms ranging from 30 days and 60 days to the Group. Trade payables turnover days for the years ended 31 December 2018 and 2017 were 304 days and 152 days respectively. Increase in trade payable turnover days was mainly due to the Group used more bank bills, which were mainly with maturity period of one year, for settlement of trade payables.

Bill payables

As at 31 December 2018, bills payable of the Group amounting to RMB127.3 million were secured by pledged bank deposits of RMB65.0 million. As at 31 December 2018, the bills payable were with maturity period within 1 year.

Foreign exchange fluctuations

The Group's sales, costs and expenses are mainly denominated in Renminbi. The Group is exposed to certain foreign exchange fluctuations arising mainly from the exposure of Renminbi against Hong Kong dollar and US dollar. During the year ended 31 December 2018, the Group did not enter into forward contracts to hedge the foreign exchange exposures as the Directors considered that the financial benefits of such forward contracts may not outweigh their costs. The Company will continue to monitor foreign exchange fluctuations to best preserve the Group's cash value.

Charges on assets

As at 31 December 2018, land and building of the Group in Hong Kong with net book value of RMB7.0 million were pledged as security for a mortgage loan (31 December 2017: RMB7.5 million).

Contingent liabilities

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

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2018, the Group had approximately 1,490 employees (including part-time employees) (2017: 1,940 employees) and the total remuneration expenses for the year ended 31 December 2018 amounted to RMB91.9 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.

PROSPECTS

During the year ended 31 December 2018, the market demand for the Group's products remained weak. The sales of the Group's products remained at a low level as compared to the previous years. Moreover, the purchase costs of certain major raw materials continued to hike during the year ended 31 December 2018 which erode the overall profit margin of the Group.

To cope with this difficult market situation, during the year ended 31 December 2018, the Group decided to cease the production of the majority of its low margin product 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 year ended 31 December 2018 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 year ended 31 December 2018. For example, participating in various food fairs and exhibitions, collaborating with distributors and retailers for on-site promotion activities and launching advertisement in new electronic media.

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 will also proactively seek the opportunities to dispose of its non-core assets to improve its liquidity and capital structure.

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 benefit from the economic growth in due course.

KEY RISKS AND UNCERTAINTIES

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

Business Risk

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

Industrial Risk

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

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. The Group recognises that operational risks cannot be eliminated completely and that it may not always be cost effective to do so. Key functions in the Group are guided by their operating procedures, limits of authority and reporting framework. The Group will identify and assess key operational exposures from time to time and report such risk issues to senior management as early as possible so that appropriate risk response can be taken.

Financial Risk

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

DIRECTORS

ZHENG YU HUAN — Chairman and Executive Director

Mr. Zheng Yu Huan, aged 48, is an executive Director. He was appointed as the chairman of the Board of Directors of the Company since 17 March 2015. He was appointed as a Director on 15 June 2004 and was re-designated as an executive Director on 23 September 2011. Mr. Zheng is primarily responsible for the Group's overall management in particular on sales and marketing operations, including formulating the advertising and promotional programs. Mr. Zheng is one of the founders of the Group's jelly products business and is also a director of a number of the Group's subsidiaries including LBXX International and Timeluck. Mr. Zheng has over 20 years of experience in sales and marketing of snack food products. He joined the Group in 2000 as a deputy general manager of LBXX Fujian.

From 1996 to 2000, Mr. Zheng was a general manager of the sales and marketing department of Jinjiang Weili Foods Co., Ltd.（晉江市味力食品有限公司）. Mr. Zheng received his master's degree in business administration from Renmin University of China（中國人民大學）in 2006. Mr. Zheng graduated from an executive development program for senior management from Xiamen University（廈門大學）in December 2010. Mr. Zheng has also assumed several social positions, such as a representative of the Eleventh Jinjiang Chinese People's Political Consultative Conference（中國人民政治協商會議第十一屆福建省晉江市委員會）since 2006, the vice president of the Sixth Fujian Provincial Youth Federation（第六屆福建省青年聯合會）, and member of the Tenth Fujian Provincial Youth Federation（第十屆福建省青年聯合會）. He was recognized as one of the China Industrial Economy Top 10 Outstanding Youth（中國工業經濟十大傑出青年）in December 2009 by China Industrial Forum（中國工業論壇）. Mr. Zheng is the brother of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and the brother-in-law of Mr. Li Hung Kong.

ZHENG YU SHUANG — Chief Executive Officer and Executive Director

Mr. Zheng Yu Shuang, aged 50, is the chief executive officer of the Group and an executive Director. He was appointed as a Director on 1 June 2004 and was re-designated as an executive Director on 23 September 2011. Mr. Zheng is primarily responsible for the overall operations of the Company. He is the head of the Group's production department and oversees the quality control department. Mr. Zheng is one of the founders of the Group's jelly products business and is also a director of the Group's subsidiaries, including LBXX Investments, LBXX Holdings, LBXX International, LBXX Sichuan, LBXX Anhui, LBXX Fujian, LBXX Tianjin and Timeluck.

Mr. Zheng has over 22 years of experience in the manufacture of snack food products. He joined the Group in 2000 as the general manager of LBXX Fujian. From 1994 to 2000, Mr. Zheng was a general manager of the production and quality control department of Jinjiang Weili Foods Co., Ltd.（晉江市味力食品有限公司）. Mr. Zheng received his master's degree in business administration from Renmin University of China（中國人民大學）in May 2006. He received a certificate qualifying as a senior quality control inspector（高級質量（品質）管理師）from China Professional Development Centre（中國專業人才庫管理中心）in July 2009. Mr. Zheng has also assumed several social positions, such as the honorary chairman of Jinjiang Food Industry Association（晉江市食品行業協會）from 2007 to 2010, a member of the Tianjin Chinese People's Political Consultative Conference（天津市人民政治協商會議）from 2008 to 2012, and the vice-chairman of China National Confectionary Association（中國食協糖果專業委員會）from May 2010 to May 2013. Mr. Zheng is the brother of Mr. Zheng Yu Long and Mr. Zheng Yu Huan and the brother-in-law of Mr. Li Hung Kong.

ZHENG YU LONG — Executive Director

Mr. Zheng Yu Long, aged 53, is an executive Director. He was appointed as a Director on 1 June 2004 and was re-designated as an executive Director on 23 September 2011. Mr. Zheng is primarily responsible for the overall operations, strategic planning and business development of the Group. He is also actively involved in the marketing of the products and branding of the Group, and procurement of raw materials from suppliers. Mr. Zheng is a key contact person between the Group and its business partners. He is one of the founders of the Group's jelly products business and is also a director of the Group's subsidiary, Timeluck. Mr. Zheng joined the Group in 2000 as a managing director of LBXX Fujian. Mr. Zheng has over 24 years of experience in the marketing and manufacturing of snack food products. Since joining the Group in 2000, Mr. Zheng has dedicated the past 18 years to expand and promote the Group's business from a manufacturer of jelly products to a recognized snack food brand in China. From 1991 to 2000, Mr. Zheng was the general manager of Jinjiang Weili Foods Co., Ltd. (晉江市味力食品有限公 司), where he was responsible for the daily operations, sales, production, procurement and business development of this company. Through such experiences, Mr. Zheng has developed extensive relationships with the industry partners and is able to keep abreast of the latest development of the snack food industry. Mr. Zheng Yu Long was brought up in the PRC. Mr. Zheng has never been a full time government official of any country, or a full time employee of any state or government-owned/operated entity for a substantial period of time. Mr. Zheng is the brother of Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan and the brother-in-law of Mr. Li Hung Kong.

LI HUNG KONG — Vice Chairman and Non-Executive Director

Mr. Li Hung Kong, aged 50, is the vice-chairman and non-executive Director. He was appointed as a Director on 1 June 2004 and was re-designated as a non-executive Director on 23 September 2011. He is an experienced entrepreneur who has over 22 years of experience in investing and managing manufacturing business. He is also a director of the Group's subsidiaries, including LBXX Investments, LBXX Holdings, LBXX Fujian and Timeluck. Mr. Li joined the Group in 2000 as a director of LBXX Fujian. Prior to joining the Group, Mr. Li founded the following companies in the 1990s, Jinjiang Xingtai Packing Wear Co., Ltd. (晉江市興泰包裝用品有限公司), Fujian Huatai Packing Co., Ltd. (福建華泰包裝用品有限公司), companies engaged in the paper packaging business, and Jen Yuon Trading Co. (晉融貿易公司), a company engaged in commercial trading, and has been as a director in each of these companies since their establishment. Mr. Li is a brother-in-law of Mr. Zheng Yu Long, Mr. Zheng Yu Shuang and Mr. Zheng Yu Huan.

REN YUNAN — Non-Executive Director

Mr. Ren Yunan, aged 43, is a non-executive Director. He was appointed as the non-executive Director on 3 February 2015. Mr. Ren is currently an independent non-executive director of Ronshine China Holdings Ltd., (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), stock code: 3301) and an executive director, Chairman and Chief Executive Officer of LEAP Holdings Group Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1499). From May 2017 to July 2018, Mr. Ren has served as an independent non-executive director of International Entertainment Corporation (a company listed on the Main Board of the Stock Exchange, stock code: 1009). From November 2017 to December 2017, Mr. Ren has served as a non-executive director and chairman of the board of directors of AVIC Joy Holdings (HK) Limited (a company listed on the Main Board of the Stock Exchange; stock code: 260). From April 2015 to May 2017, Mr. Ren has served as an independent director of SPI Energy Co., Ltd. (a company listed on the NASDAQ; stock code: SPI). From June 2016 to October 2016, Mr. Ren has served as a supervisor (as shareholders' representative) of the fifth session of the supervisory committee of Dongjiang Environmental Company Limited, (a company listed both on the Main Board of the Stock Exchange under the stock code of 895 and the Small and Medium Enterprise Board of the Shenzhen Stock Exchange under the stock code of 2672). From February 2011 to April 2018, Mr. Ren has served as a non-executive director of China Child Care Corporation Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1259).

Mr. Ren graduated from Peking University with a bachelor's degree in Law in 1997 and received a master's degree in law from Harvard Law School in 1999.

LI ZHI HAI — Independent Non-Executive Director

Mr. Li Zhi Hai, aged 64, is an independent non-executive Director. He was appointed as an independent non-executive Director on 23 September 2011. Mr. Li has over 20 years of experience in the traditional Chinese medicine and health food industries and held key leadership positions in institutions and societies. From medical, food to the comprehensive health industry, Mr. Li has accumulated experience in planning, management and operation in the industry for several decades. He also served key leadership positions and expert advisers in health industry enterprises, regional government and industry associations. Mr. Li currently serves as an expert of the topic of elderly care and health services of the Institute of Social Development Research of National Development and Reform Commission（國家發改委社會發展研究所健康養老服務研究課題）and the research topic of peptide application and health industry development of the International Cooperation Center Entrepreneurship Office（國際合作中心創業辦公室多肽應用與健康產業發展研究課題）. Mr. Li is also a consultant of Sichuan Zhixin Group*（四川置信集團）, Hainan Nanmu Liuhe Group*（海南楠木六合集團）, Shosen Tianci New Energy Group*（首信天賜新能源集團）, Shenzhen Jianyuan Pharmaceutical Group*（深圳建元醫藥集團）, Shanghai Builder Ratings Association*（上海築譽聯合會）and other large-scale enterprises. Mr. Li currently serves as the Vice President and Secretary General of the Standing Committee of the China Life Science Association（中國人生科學學會常務理事副會長兼秘書長）.

SUN KAM CHING — Independent Non-Executive Director

Ms. Sun Kam Ching, aged 46, is an independent non-executive Director. She was appointed as an independent non-executive Director on 23 September 2011. Ms. Sun has over 20 years of experience in business administration and financial management. Ms. Sun joined Jinjiang Aile Group（晉江愛樂集團）("**Jinjiang Aile**") in 1996 and held various positions in Jinjiang Aile, including the head of the sales department of Jinjiang Aile Shoes and Clothing Co., Ltd.（晉江愛樂鞋服公司）, a subsidiary of Jinjiang Aile, from 1996 to 2000, the chief sales planning officer of Jinjiang Aile since 2003, and the chief financial officer of Jinjiang Aile since 2005. Ms. Sun has also been responsible for the image consultancy of Jinjiang Aile and is involved in the management of certain subsidiaries of Jinjiang Aile, including Jinjiang Aile Holiday Hotel（晉江愛樂假日酒店）and Shishi Aile Holiday Hotel（石獅愛樂假日酒店）since 2000. Ms. Sun has been appointed as an independent non-executive director of China Creative Global Holdings Ltd. (a company listed on the Main Board of the Stock Exchange, stock code: 1678) since 2013. Ms. Sun received a bachelor's degree in business administration from the Huaqiao University（華僑大學）in 1994. She also attended the training courses for independent non-directors conducted by the Shenzhen Stock Exchange in 2008.

CHUNG YAU TONG — Independent Non-Executive Director

Mr. Chung Yau Tong, aged 47, is an independent non-executive Director. He was appointed as an independent non-executive Director on 23 September 2011. Mr. Chung has 23 years of experience in audit practice, financial management and compliance assurance of listed companies in Hong Kong. From 1994 to 2000, Mr. Chung was with PricewaterhouseCoopers, where he last held the position of a manager. Mr. Chung was with CITIC 21CN Company Limited (a company listed on the Main Board of the Stock Exchange and now known as Alibaba Health Information Technology Limited, stock code: 00241) from 2000 to 2005, where he last held the position as the group financial controller. He was a qualified accountant of Gome Electrical Appliances Holding Company Limited (a company listed on the Main Board of the Stock Exchange and now known as Gome Retail Holdings Limited, stock code: 00493) from 2005 to March 2007. Mr. Chung was the financial controller and company secretary of Vongroup Limited (a company listed on the Main Board of the Stock Exchange, stock code: 00318) from March 2007 to December 2007. He currently serves as the financial controller and company secretary of Chaoyue Group Limited (a company listed on the Main Board of the Stock Exchange and now known as International Business Settlement Holdings Limited, stock code: 00147) since 2008. Mr. Chung received a bachelor's degree in business administration from The University of Hong Kong in 1994. He is a fellow of the Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

* *For identification purpose only*

SENIOR MANAGEMENT

Mr. Chan Yee Lok, aged 44, is our Chief Financial Officer and Company Secretary since November 2014. He is responsible for our accounting, finance and company secretarial matters. Prior to joining us in August 2014, Mr. Chan had worked in international accounting firms and companies listed on the Main Board of the Stock Exchange and possessed over 20 years of accounting, financing, auditing and company secretarial experience. Mr. Chan graduated from the City University of Hong Kong with a bachelor's degree with honours in accountancy in 1997. He is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

Mr. Lian Xi, aged 56, is the head of our sales and marketing department. He is responsible for the overall sales and marketing of our products. He has over 19 years of experience in the food production industry. Mr. Lian joined us in 2002 as the production manager of LBXX Fujian. From 1984 to 1992, Mr. Lian worked at Fujian Pharmaceutical (福州製藥廠) where he last held the position of an assistant engineer. Prior to joining us in 2002, Mr. Lian was the manager of the marketing department and the deputy manager of the sales department of Fujian Lv De Biology Holding Ltd. (福建綠得生物股份有限公司). Mr. Lian received his bachelor's degree in light industrial machinery from Fuzhou University (福州大學) in 1984, his postgraduate certificate in business administration from the Open University of Hong Kong in 2001, and his master's degree in business administration from the Open University of Hong Kong in 2003.

Mr. Chen Jian Ming, aged 54, is the head of our procurement department. He is primarily responsible for the sourcing and procurement of raw materials for the Group. He has over 19 years of commercial and banking experience. Mr. Chen joined us in 2010. Prior to joining us, Mr. Chen served in various positions at China Construction Bank, Quanzhou branch (中國建設銀行泉州分行) between January 1990 and October 2010, including deputy branch manager, deputy manager and manager of the credit department. Mr. Chen received a bachelor's degree in finance from the Hunan University (湖南大學) through online courses in July 2005. He is also recognized as a qualified professional in economics (經濟師) by the Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人事部).

Mr. Zhang Xiao Dong, aged 48, is the head of our research and development and our quality control department. He is responsible for the administration of the development and quality control of our products. He has also been the director of the technical department of LBXX Fujian since February 2010. He has over 19 years of experience in product engineering and product research. Mr. Zhang joined us in May 2005 as the manager of the quality technological department of LBXX Fujian. From July 1994 to December 1995, he was a technician at the food production base of Lanzhou military headquarters (蘭州軍區司令部副食品生產基地). From May 2002 to April 2005, he was a research engineer at Hainan Yi De Food Products Co., Ltd. (海南億德食品有限公司). Mr. Zhang received a bachelor's degree in food engineering from the Gansu Agricultural University (甘肅農業大學) in June 1994.

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

Corporate Governance Report

The Board of Directors is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to promoting stringent corporate governance practices and procedures with a view to safeguarding the interests of shareholders as well as enhancing investor confidence and the Company's accountability and transparency. The Company set out its corporate governance practices with reference to the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules. During the year ended 31 December 2018, the Company has complied with all the code provisions set forth under the CG Code and there has been no deviation from the code provisions throughout the year ended 31 December 2018.

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

THE BOARD OF DIRECTORS

Responsibilities

The Board is responsible for overseeing the overall development of the Company's business with the objectives of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance and developing and reviewing the Group's policies and practices on corporate governance. The Board has delegated to the chief executive officer of the Group (the "**Chief Executive Officer**"), of which the Directors also undertake, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference. The Board directly, and indirectly through its Board committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

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

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

Board Composition

As at the date of this annual report, the Board comprises eight members in total, with three executive directors, two non-executive directors and three independent non-executive directors.

The composition of the Board during the year ended 31 December 2018 and up to the date of this annual report is set out below:

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

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

Independent Non-Executive Directors
Mr. Li Zhi Hai
Ms. Sun Kam Ching
Mr. Chung Yau Tong

The biographical details of the current Board members are set out under the section headed "Biographical Details of Directors and Senior Management" on pages 19 to 22 of this annual report.

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

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive Directors represented over one-third of the Board.

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

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

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

Chairman and Chief Executive Officer

During the year ended 31 December 2018, the roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.

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

Appointment and Re-election of Directors

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

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

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

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. Notice of regular Board meetings is served to all directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

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

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

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

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

Directors' Attendance Records

During the year ended 31 December 2018, four Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each Director at the Board meetings and the 2018 annual general meeting (the "**2018 AGM**") during the year ended 31 December 2018 are set out below:

	Attendance/Number of Meetings	
Name of Director	**Board Meetings**	**2018 AGM**
Mr. Zheng Yu Huan	4/4	1/1
Mr. Zheng Yu Shuang	4/4	1/1
Mr. Zheng Yu Long	3/4	0/1
Mr. Li Hung Kong	3/4	1/1
Mr. Ren Yunan	2/4	0/1
Mr. Li Zhi Hai	4/4	1/1
Ms. Sun Kam Ching	4/4	1/1
Mr. Chung Yau Tong	4/4	1/1

Continuous Professional Development

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

During the year ended 31 December 2018, some of the Directors attended external seminars and/or conferences to update their general business and economic knowledge or statutory requirements, Listing Rules and other relevant topics related to listed company. The Directors also read materials in relation to regular update to statutory requirements, the Listing Rules and other relevant topics related to listed company.

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

A: attending in-house/external seminars and/or conferences

B: reading newspapers, journals and updates relating to the economy, general business, director's training and responsibilities etc.

During the year ended 31 December 2018, the Company Secretary has taken not less than 15 hours of relevant professional training.

Model Code for Securities Transactions

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2018.

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

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2018.

DELEGATION BY THE BOARD

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

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

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

BOARD COMMITTEES

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

Nomination Committee

The Nomination Committee comprises three members, namely Mr. Zheng Yu Shuang, Mr. Li Zhi Hai and Mr. Chung Yau Tong, the majority of which are independent non-executive Directors, with Mr. Li Zhi Hai acting as the chairman of the Nomination Committee. The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of the independent non-executive directors.

During the year ended 31 December 2018, the Nomination Committee was primarily responsible for:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;

- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on selection of individuals nominated for directorships;

- assessing the independence of independent non-executive Directors, having regard to the requirements under the applicable laws, rules and regulations; and

- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors and, in particular, the chairman and the Chief Executive Officer.

Nomination Policy

The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to the Shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies. When the Nomination Committee considers it appropriate, it invites nominations of candidates from Board members or any person and makes recommendations for the Board's consideration and approval.

In assessing the suitability of a proposed candidate, the Nomination Committee would consider factors including:

(a) reputation for integrity;

(b) experience in food and beverages industry and/or business strategy, management, legal and financial aspects;

(c) whether the proposed candidate is able to assist the Board in effective performance of its responsibilities;

(d) the perspectives and skills that the proposed candidate is expected to bring to the Board;

(e) diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;

(f) commitment in respect of available time and relevant interest; and

(g) in the case of selection for independent non-executive Directors, the independence of the proposed candidate.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Board Diversity Policy

The Board adopted the board diversity policy (the "**Policy**") in accordance with the requirement set out in the CG Code. The Policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the Policy, and reviews, as appropriate, the Policy to ensure the effectiveness of the Policy. The Nomination Committee will continue to give adequate consideration to these measurable objectives when making recommendations of candidates for appointment to the Board.

The Nomination Committee will meet at least once per year according to its terms of reference. A Nomination Committee meeting was held during the year ended 31 December 2018, details of attendance are set out below:

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

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Zheng Yu Long, Ms. Sun Kam Ching, and Mr. Chung Yau Tong, the majority of which are independent non-executive directors, with Ms. Sun Kam Ching acting as the chairman of the Remuneration Committee. The Remuneration Committee is responsible for making recommendations to the Directors' remuneration and other benefits.

The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that level of their remuneration and compensation are reasonable. Their written terms of reference are in line with the provisions of the CG Code. Pursuant to Code Provision B.1.3 of the CG Code, the Remuneration Committee would make available its terms of reference, explaining its role and the authority delegated to it by the Board.

During the year ended 31 December 2018, the Remuneration Committee was primarily responsible for:

- making recommendations to the Board on the Company's policy and structure for all remunerations of Directors and senior management and on the establishment of formal and transparent procedures for developing policies on all such remunerations;

- making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

- reviewing and approving performance-based remunerations by reference to corporate goals and objectives resolved by the Board from time to time;

- reviewing and approving compensation payable to executive Directors and senior management members of the Company in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is fair and not excessive for the Company;

- reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is reasonable and appropriate; and

- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee held one meeting during the year ended 31 December 2018 and the details of attendance are set out below:

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

Audit Committee

The Audit Committee comprises three members, namely Mr. Li Zhi Hai, Ms. Sun Kam Ching, and Mr. Chung Yau Tong, all of which are independent non-executive directors, with Mr. Chung Yau Tong acting as the chairman of the Audit Committee. The primary duties of the Audit Committee are to review the financial information and reporting process, risk management and internal control systems and to provide advice and comments to the Board.

During the year ended 31 December 2018, the Audit Committee was primarily responsible for:

- making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- developing and implementing policy on the engagement of an external auditor to supply non-audit services;
- monitoring integrity of financial statements of the Company and the Company's annual report and accounts and half-year reports and reviewing significant financial reporting judgements contained in them;
- reviewing the Company's financial controls, internal control and risk management systems;
- discussing with management the risk management and internal control systems and ensuring that management has discharged its duty to have effective systems;
- considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- ensuring co-ordination between the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
- reviewing the Group's financial and accounting policies and practices;
- reviewing the Group's connected transactions;
- reviewing the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response; and
- ensuring that the Board provides a timely response to the issues raised in the external auditor's management letter.

The Audit Committee held two meetings during the year ended 31 December 2018 and the details of attendance are set out below:

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

Corporate Governance Functions

During the year ended 31 December 2018, the Audit Committee is also responsible for determining the policy for the corporate governance of the Company performing the corporate governance duties as below:

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

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements of inside information and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

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

Risk management and Internal Controls

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

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

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions. All departments conducted internal control assessment on a regular basis to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department. The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems during the year ended 31 December 2018.

The internal audit department of the Company is responsible for providing internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Company has also engaged an external consulting firm to conduct a review of the effectiveness of the system of internal control of the major operating subsidiaries of the Group including recommendations to enhance the overall internal control system for the year ended 31 December 2018.

The Board, as supported by the Audit Committee as well as the management report and the findings of the internal audit department and the external consulting firm, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, of the Company during the year ended 31 December 2018, and considered that such systems are effective and adequate.

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

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

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 46 to 50.

During the year ended 31 December 2018, the Group's external auditor provided the following services to the Group:

Type of Services	Service fees RMB'000
Statutory audit services	1,989
Non-audit services – taxation	24
Total	2,013

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

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

The annual general meeting regarding the financial results for the year ended 31 December 2018 (the "**AGM**") will be held on Tuesday, 11 June 2019. The notice of the AGM will be sent to shareholders at least 20 clear business days before the AGM.

SHAREHOLDER RIGHTS

Convening a special general meeting by shareholders

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

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

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

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

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

Making enquiry to the Board

Shareholders of the Company may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong by post to 7th Floor, AT Tower, 180 Electric Road, North Point, Hong Kong or by email to 1262 @lbxxgroup.com.

INVESTOR RELATIONS

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

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

Investors Communication Policy

The Company regards the communication with institutional investors as important means to enhance the transparency of the Company and collect views and feedbacks from institutional investors. To promote effective communication, the Company maintains a website at http://www.lbxxgroup.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted are available for public access.

During the year ended 31 December 2018, the Directors and senior management of the Company participated in numerous investor conferences/meetings. In addition, the Company also maintains communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media.

Disclaimer

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

The Board is pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year ended 31 December 2018 and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2018 are provided in the section headed "Chairman's Statement" on pages 6 and 7 and the section headed "Management Discussion and Analysis" on pages 10 to 18 of this annual report. An account of the Company's relationships with its key stakeholders is included in the paragraph headed "Relationships with Employees, Suppliers and Customers" of the report of the Directors on pages 35 to 45 of this annual report.

An analysis of the Group's performance during the year ended 31 December 2018 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 10 to 18 of this annual report.

In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Company are provided in the paragraph headed "Environmental, Social and Governance" of the report of the Directors on pages 35 to 45 of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 51.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017: Nil).

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

CLOSURE OF REGISTER OF MEMBERS

In order to determine the identity of the shareholders who are entitled to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from Wednesday, 5 June 2019 to Tuesday, 11 June 2019 (both dates inclusive), during which period no transfer of shares of the Company (the "**Share(s)**") will be registered. In order to be eligible to attend and vote at the forthcoming AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Tuesday, 4 June 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year ended 31 December 2018 are set out in Note 15 to the consolidated financial statements.

BORROWINGS

Particular of the borrowings of the Group as at 31 December 2018 is set out in Note 25 to the consolidated financial statements.

SHARE CAPITAL

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

RESERVES

The movements in the reserves of the Group during the year ended 31 December 2018 are set out on page 54 of the consolidated financial statements.

FINANCIAL SUMMARY

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

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this report were:

Executive Directors:

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

Non-Executive Directors:

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

Independent Non-Executive Directors:

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

In accordance with bye-law 84 of the Company's Bye-law, Mr. Zheng Yu Huan, Mr. Ren Yunan and Mr. Li Zhi Hai shall retire from office as Directors by rotation at the forthcoming AGM. All retiring Directors, being eligible for re-election, will offer themselves for re-election at the forthcoming AGM.

Biographical details of Directors are set out on pages 19 to 22 of this annual report.

DIRECTORS' EMOLUMENTS

The emoluments of the Directors had been determined with reference to the Director's duties, responsibilities, performance and the results of the Group. Details of the remuneration of the Directors are set out in Note 27 to the consolidated financial statements.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had received, from each of the independent non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is satisfied with the independent status and considered all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming AGM has an outstanding service contract which is not terminable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Company entered into the following connected transaction with a connected person of the Company:

(i) On 31 December 2018, the Company entered into a loan agreement with Mr. Zheng Yu Long, an executive Director, for a loan facility of RMB40,000,000. As at 31 December 2018, the Company had drawn down RMB29,498,000. The amount is unsecured, repayable on 31 December 2019 and bears fixed interest at 2% per annum.

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Connected Transactions" above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interests, whether directly or indirectly, subsisted as at 31 December 2018 or at any time during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group.

PERMITTED INDEMNITY PROVISION

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the respective interests and short positions of the Directors and the chief executive and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

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

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

Notes:

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

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

(3) Mr. Ren Yunan, is the sole director of and interested in the entire issued share capital of Thriving Market Limited. As at 31 December 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 entered into between the Company and Thriving Market Limited. Upon the full exercise of the subscription rights attaching to such 100,000,000 warrants, Thriving Market Limited will hold approximately 7.0% of the enlarged issued share capital of the Company (assuming that there will not be any change in the issued share capital of the Company before the exercise of such subscription rights).

(ii) Short 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%	*1*
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*

Note:

(1) 119,935,060 shares and 610,915,527 shares of the Company held by Mr. Zheng Yu Long and Alliance Holding, respectively, have been charged in favour of Mr. Zhang Yan.

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

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

Save as disclosed above, as at 31 December 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.

SHARE OPTIONS

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

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

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

Initially, the maximum number of shares which may be issued upon the exercise of all the options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) shall not exceed 10% of the aggregate number of the Shares in issue as at the date of the Listing, which was 112,560,000 Shares, representing approximately 8.5% of the issued share capital of the Company as at the date of this annual report. The total number of Shares which may be issued upon the exercise of all the options granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the aggregate number of the Shares in issue from time to time.

Unless approved by the shareholders, the total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised, cancelled and outstanding options) under the Share Option Scheme or any other share option scheme adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) in any 12-month period must not exceed 1% of the Shares in issue.

The vesting periods, exercise periods and vesting conditions may be specified by the Company at the time of the grant, and the share options shall expire no later than 10 years from the relevant date of grant. At the time of the grant of the options, the Company may specify any performance target(s) which must be achieved before the options can be exercised. The Share Option Scheme does not contain any performance targets.

The subscription price for the Shares being the subject of the options shall be no less than the higher of (i) the closing price of the Shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the date of grant; and (iii) the nominal value of a Share on the date of grant.

The amount payable by a grantee on the acceptance of a grant of options is HK$1.00.

The following are details of the options granted pursuant to the Share Options Scheme but not yet exercised during the year ended 31 December 2018:

Grantee and position	Date of grant of options	Exercise price	Number of options granted	Number of options granted during the year	Number of options exercised/ cancelled/ lapsed during the year	Number of options not yet exercised on 31 December 2018	Approximate percentage of shareholding upon the exercise of the options
Other employees	30 September 2014	HK$1.19	33,000,000	–	–	33,000,000	2.48%
Other employees	10 July 2015	HK$0.89	30,000,000	–	–	30,000,000	2.26%
Other employees	14 November 2016	HK$0.47	30,000,000	–	–	30,000,000	2.26%
Total			93,000,000	–	–	93,000,000	7.00%

During the year ended 31 December 2018, no options were granted to a Director, chief executive or substantial shareholder of the Company nor an associate (as defined in the Listing Rules) of any of them.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, fellow subsidiaries or subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

SUBSTANTIAL SHAREHOLDERS

At 31 December 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	Security interest	Total interests in shares *(Note 1)*	Approximate percentage shareholding	*Note*
Alliance Holding	610,915,527	–	–	–	610,915,527 (L)(S)	45.97%	*2, 4*
Zheng Yu Long	119,935,060	610,915,527	–	–	730,850,587 (L)(S)	54.99%	*2, 4*
Zheng Yu Shuang	–	610,915,527	–	–	610,915,527 (L)(S)	45.97%	*2, 4*
Zheng Yu Huan	–	610,915,527	–	–	610,915,527 (L)(S)	45.97%	*2, 4*
Li Hung Kong	–	610,915,527	–	–	610,915,527 (L)(S)	45.97%	*2, 4*
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*
Zhang Yan	–	–	–	730,850,587	730,850,587 (L)	54.99%	*4*

Notes:

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

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

(3) Mr. Ren Yunan is the sole director of and interested in the entire issued share capital of Thriving Market Limited. As at 31 December 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 entered into 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).

(4) 119,935,060 shares and 610,915,527 shares of the Company held by Mr. Zheng Yu Long and Alliance Holding, respectively, have been charged in favour of Mr. Zhang Yan.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2018.

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

There was no significant investments, material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2018 (2017: Nil). Further, there was no plan authorised by the Board for other material investments or additional capital assets as at the date of this annual report.

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

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

As at 31 December 2018, the Group had approximately 1,490 employees. The Group recruited and promoted individual persons according to their strength and development potential. The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the market rates, workload and responsibilities and general economic situation.

LITIGATION AND ARBITRATION

As at the date of this annual report, there was no outstanding or pending litigation and arbitration for the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company had maintained a sufficient public float throughout the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, the Group’s largest customer and five largest customers accounted for approximately 2.5% (2017: 2.2%) and 11.4% (2017: 7.2%) of the Group’s total turnover for the year, respectively.

During the year ended 31 December 2018, the Group’s largest supplier and five largest suppliers accounted for approximately 17.93% (2017: 9.2%) and 28.1% (2017: 30.9%) of the Group’s total purchases for the year, respectively.

None of the Directors, their associates or any shareholders who owned more than 5% of the Company’s share capital had any interests in the five largest customers or suppliers at any time during the year ended 31 December 2018.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

The Group’s business is built on a customer-oriented culture. The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards and high quality products to its customers. During the year ended 31 December 2018, there was no material and significant dispute between the Group and its suppliers and/or customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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

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

Compliance with Laws and Regulations

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

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

Workplace Quality

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

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

Health and Safety

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

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

Training and Development

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

AUDITORS

The financial statements for the year ended 31 December 2018 have been audited by HLB Hodgson Impey Cheng Limited ("**HLB**"). A resolution will be proposed in the forthcoming AGM to re-appoint HLB as auditors of the Company.

On behalf of the Board
Labixiaoxin Snacks Group Limited

Zheng Yu Huan
Chairman
Hong Kong, 31 March 2019

Independent Auditors' 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 SHAREHOLDERS OF
LABIXIAOXIN SNACKS GROUP LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Labixiaoxin Snacks Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 51 to 126, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately RMB179,594,000 during the year ended 31 December 2018 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB483,357,000. As stated in Note 2, these conditions, along with other matters as set forth in Note 2 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on property, plant and equipment	
Refer to Note 15 of the consolidated financial statements. As at 31 December 2018, the Group had property, plant and equipment of approximately RMB865,994,000, which mainly comprised land and buildings of approximately RMB569,905,000, plant and equipment of approximately RMB265,499,000. A recent history of losses of the subsidiaries of the Group is an indicator of impairment for property, plant and equipment and hence an impairment assessment is required. We focused on this area because the balance of property, plant and equipment was significant and these assessment process is complex and highly subjective which based on the selection of appropriate comparables and assumptions such as discount rate, future revenue. The Group engaged an external valuer to perform the valuation for the recoverable amount of the property, plant and equipment.	Our procedures in relation to management's impairment assessment included: • Evaluating the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumption based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking on a sampling basis, the accuracy and relevance of the input data used. We found that the assumptions made by management for impairment assessment were supported by the available evidence.

Key audit matter	How our audit addressed the key audit matter

Impairment assessment on trade and loan receivables

Refer to Note 19 and 21 of the consolidated financial statement.

The Group has trade receivables and loan receivable of approximately RMB226,228,000 and RMB21,400,000 respectively (net of allowance for credit losses). Provision is made for lifetime expected credit losses on trade and loan receivables.

Management applied judgement in assessing the expected credit losses. Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables and loan receivable. The expected credit loss rates are determined based on historical credit losses experienced from the past 3 years and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables.

Our procedures in relation to management's impairment assessment on trade and loan receivables included:

- Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis;

- Checking on a sample basis, the ageing profile of the trade and loan receivables as at 31 December 2018 to the underlying financial records and post year-end settlements to bank receipts;

- Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and

- Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses.

We found that the management judgment and estimates used to assess the recoverability of the trade and loan receivables and determine the impairment provision to be supportable by available evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

AUDITORS' RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Kwok Tsz Chun.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Kwok Tsz Chun
Practising Certificate Number: P06901

Hong Kong, 31 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	*6*	**502,802**	902,795
Cost of sales		**(374,683)**	(699,550)
Gross profit		**128,119**	203,245
Other income	*7*	**25,909**	15,095
Other losses, net	*8*	**(10,213)**	(78,182)
Impairment loss on property, plant and equipment	*10*	**–**	(94,535)
Impairment loss on loan receivable	*10*	**(107,100)**	–
Selling and distribution expenses		**(86,267)**	(233,691)
Administrative expenses		**(98,908)**	(99,169)
Operating loss		**(148,460)**	(287,237)
Finance income		**1,385**	2,070
Finance costs		**(44,826)**	(42,725)
Finance costs, net	*9*	**(43,441)**	(40,655)
Loss before taxation	*10*	**(191,901)**	(327,892)
Taxation	*11*	**12,307**	38,487
Loss and total comprehensive loss for the year		**(179,594)**	(289,405)
Loss per share attributable to equity holders of the Company (RMB per share)	*12*		
– Basic		**(0.14)**	(0.22)
– Diluted		**(0.14)**	(0.22)

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

The notes on pages 56 to 126 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Land use rights	*14*	**131,026**	134,342
Property, plant and equipment	*15*	**865,994**	944,129
Deposits for property, plant and equipment	*16*	**42,437**	41,170
Deferred income tax assets	*17*	**130,490**	130,490
		1,169,947	1,250,131
Current assets			
Inventories	*18*	**53,463**	63,976
Trade receivables	*19*	**226,228**	305,946
Prepayments and other receivables	*20*	**132,843**	131,788
Loan receivable	*21*	**21,400**	128,500
Pledged bank deposits	*22*	**64,959**	43,300
Cash and cash equivalents	*23*	**25,507**	72,833
		524,400	746,343
Total assets		**1,694,347**	1,996,474
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*26*	**470,030**	470,030
Share premium	*26*	**615,656**	615,656
Other reserves	*33*	**102,126**	102,126
Accumulated losses		**(520,455)**	(337,546)
Total equity		**667,357**	850,266

	Notes	2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	*17*	**19,233**	31,540
Bank borrowings	*25*	**–**	200,000
		19,233	231,540
Current liabilities			
Trade and other payables	*24*	**299,368**	331,429
Bank borrowings	*25*	**708,389**	583,239
		1,007,757	914,668
Total liabilities		**1,026,990**	1,146,208
Total equity and liabilities		**1,694,347**	1,996,474
Net current liabilities		**(483,357)**	(168,325)
Total assets less current liabilities		**686,590**	1,081,806

Approved and authorised for issue by the board of directors on 31 March 2019:

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

The Notes on pages 56 to 126 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 *(Note 33(a))*	Statutory reserves RMB'000 *(Note 33(b))*	Share option reserves RMB'000 *(Note 33(c))*	Currency translation reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
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 year	–	–	–	–	–	–	–	(289,405)	(289,405)
Lapse of share option	–	–	–	–	(9,538)	–	–	9,538	–
Balance as at 31 December 2017	470,030	615,656	(87,600)	170,995	17,914	(41)	858	(337,546)	850,266
Impact on initial application of IFRS 9 *(Note 2)*	–	–	–	–	–	–	–	(3,315)	(3,315)
Balance as at 1 January 2018 (restated)	**470,030**	**615,656**	**(87,600)**	**170,995**	**17,914**	**(41)**	**858**	**(340,861)**	**846,951**
Loss and total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(179,594)**	**(179,594)**
Balance as at 31 December 2018	**470,030**	**615,656**	**(87,600)**	**170,995**	**17,914**	**(41)**	**858**	**(520,455)**	**667,357**

The Notes on pages 56 to 126 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Loss for the year		**(179,594)**	(289,405)
Adjustments for:			
– Income tax credit recognised in profit or loss		**(12,307)**	(38,487)
– Amortisation and depreciation		**73,008**	79,836
– Impairment loss on property, plant and equipment	*15*	**–**	94,535
– Impairment loss on loan receivable	*21*	**107,100**	–
– Impairment on trade receivable		**–**	1,073
– Reversal of credit losses on trade receivables	*4*	**(390)**	–
– Loss on disposal of property, plant and equipment		**10,338**	80,043
– Interest income on bank deposits		**(1,385)**	(2,070)
– Finance costs recognised in profit or loss		**44,826**	42,725
Operating cash flow before working capital changes		**41,596**	(31,750)
– Decrease/(increase) in trade receivables, prepayments and other receivables		**75,738**	(44,771)
– Decrease in inventories		**10,513**	10,189
– Decrease in trade and other payables		**(38,899)**	(2,213)
Cash generated from/(used in) operations		**88,948**	(68,545)
Income tax paid		**–**	–
Net cash generated from/(used in) operating activities		**88,948**	(68,545)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(12,227)**	(12,169)
Deposits paid for property, plant and equipment		**(2,437)**	(112,653)
Proceeds from disposal of property, plant and equipment		**11,552**	17,262
Interest received on bank deposits		**1,385**	2,070
Net cash used in investing activities		**(1,777)**	(105,490)
Cash flows from financing activities			
Proceeds from bank borrowings		**556,100**	715,800
Repayments of bank borrowings		**(630,950)**	(683,626)
Proceeds from loan from a director		**6,861**	42,660
Repayment of loan from a director		**(23)**	(20,000)
(Increase)/decrease in pledged bank deposits		**(21,659)**	7,456
Interest paid		**(44,826)**	(42,725)
Net cash (used in)/generated from financing activities		**(134,497)**	19,565
Net decrease in cash and cash equivalents		**(47,326)**	(154,470)
Cash and cash equivalents as at the beginning of the year		**72,833**	227,303
Cash and cash equivalents as at the end of the year		**25,507**	72,833

The notes on pages 56 to 126 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

Labixiaoxin Snacks Group Limited (the "**Company**") was incorporated in Bermuda on 4 May 2004 and domiciled in Bermuda. The Company's immediate and ultimate holding company is Alliance Food and Beverages (Holding) Company Limited, a company incorporated in the British Virgin Islands (the "**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 (the "**PRC**")（中國福建省晉江市五里工業園區）.

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

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

The consolidated financial statements are presented in thousands of units of Renminbi ("**RMB'000**"), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 31 March 2019.

2 BASIS OF PREPARATION

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

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

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

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

2 BASIS OF PREPARATION (Continued)

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The Group incurred a net loss of approximately RMB179,594,000 (2017: approximately RMB289,405,000) for the year ended 31 December 2018. As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB483,357,000 (2017: approximately RMB168,325,000). Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements. Also, the directors of the Company are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the following considerations:

(1) Financial support from substantial shareholder

Mr. Zheng Yu Long, the substantial shareholder of the Company who have already provided the aggregate amount of approximately RMB29,498,000 loan to the Group, have agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from 31 December 2018.

(2) Potential disposal of the land

The Group is in the process of seeking purchaser to acquire 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.

(3) Alternative sources of external funding

The Group will take steps to obtain external funding in order to improve the working capital and liquidity and cash flow position of the Group.

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

2 BASIS OF PREPARATION (Continued)

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

Application of new and revised IFRSs – effective on 1 January 2018

In the current year, the Group has applied, for the first time, the following new and amendments to the IFRSs (the "**new and revised IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"), which are effective for the Group's financial year beginning from 1 January 2018. A summary of the new and revised IFRSs applied by the Group is set out as follows:

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

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

The above new and revised IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

(a) *Impact on the consolidated financial statements*

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the application of new and revised IFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below:

Consolidated statement of financial position (extract)	**As at 31 December 2017**	**IFRS 9**	**As at 1 January 2018**
	RMB'000	RMB'000	RMB'000
Current assets			
Trade receivables	305,946	(3,315)	302,631
Equity			
Accumulated losses	(337,546)	(3,315)	(340,861)

2 BASIS OF PREPARATION (Continued)

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

Application of new and revised IFRSs – effective on 1 January 2018 (Continued)

IFRS 9 Financial instruments

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

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1 January 2018. The difference between carrying amounts at 31 December 2017 and the carrying amounts at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

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

Below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

Under the transition methods chosen, the Group recognises the cumulative effect of the initial application of IFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been affected by IFRS 9.

	As at 31 December 2017 RMB'000	Impact on initial application of IFRS 9 RMB'000	As at 1 January 2018 RMB'000
Current assets			
Trade receivables	305,946	(3,315)	302,631
Equity			
Accumulated losses	(337,546)	(3,315)	(340,861)

2 BASIS OF PREPARATION (Continued)

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

Application of new and revised IFRSs – effective on 1 January 2018 (Continued)

IFRS 9 Financial instruments (Continued)

(i) Classification and measurement

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("**FVOCI**") and at fair value through profit or loss ("**FVPL**"). These supersede IAS 39 's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial assets is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– Amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortise cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to accumulated losses. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

There is no reclassification or remeasurement of the financial assets, including cash and cash equivalent, trade receivables, other receivables, loan receivable and pledge bank deposit for the adoption of IFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

2 BASIS OF PREPARATION (Continued)

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

Application of new and revised IFRSs – effective on 1 January 2018 (Continued)

IFRS 9 Financial instruments (Continued)

(ii) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets at amortised cost, including other receivables, loan receivable, pledged bank deposits and bank balances, are assessed on 12-month ECL ("**12m ECL**") basis as there had been no significant increase in credit risk since initial recognition.

All loss allowances, including trade receivables and other financial assets at amortised cost as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables
	RMB'000
At 31 December 2017 – IAS39	1,073
Amounts re-measured through opening – accumulated losses	3,315
At 1 January 2018 – IFRS9	4,388

IFRS 15 Revenue from Contracts with Customers and the related Amendments

As a result of the changes in the Group's accounting policies, as explained below, IFRS 15 was generally adopted without restating any other comparative information. The adoption of IFRS 15 in the current period does not result in any impact on the amounts reported in the consolidated financial information and/or disclosures set out in the consolidated financial information except that, the Group has adopted the following accounting policies on revenues with effect from 1 January 2018.

IFRS 15 requires that revenue from contracts with customers be recognised upon the transfer of control over goods or services to the customer. As such, upon adoption, this requirement under IFRS 15 resulted in immaterial impact to the financial statements as the timing of revenue recognition on sale of goods is nearly unchanged. Thus there was no impact on the Group's consolidated statement of financial position as of 1 January 2018.

2 BASIS OF PREPARATION (Continued)

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

New and revised IFRSs that have been issued but are not yet effective

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

IAS 1 and IAS 8 (Amendments)	Definition of Material[3]
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
IAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures[1]
IFRS (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle[1]
IFRS 3 (Amendments)	Definition of a Business[2]
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
IFRS 10 and IAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[4]
IFRIC – Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for business combination and asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after 1 January 2020.

4 Effective for annual periods beginning on or after 1 January 2021.

5 Effective for annual periods beginning on or after a date to be determined.

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

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

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

2 BASIS OF PREPARATION (Continued)

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

IFRS 16 Leases

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

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

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

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

As at 31 December 2018, the Group has no operating lease commitment. The directors do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in a significant impact on the Group’s result at this stage.

Except disclosed above, the directors of the Company do not anticipate that the application of other new and revised IFRS will have a material impact on the Group’s financial performance and financial positions.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Consolidation

Subsidiaries

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Consolidation (Continued)

Subsidiaries (Continued)

Acquisition-related costs are expensed as incurred.

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

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

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

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

3.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Foreign currency translation (Continued)

(c) *Group companies*

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associated company that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

3.4 Property, plant and equipment

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Property, plant and equipment (Continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

	Useful lives
Leasehold land classified as finance lease	20 years
Buildings	20 years
Plant and equipment	5 – 10 years
Motor vehicles	5 years
Leasehold improvements	5 years

Construction in progress represents costs incurred in the construction of property, plant and equipment and other tangible assets. Costs comprise direct and indirect costs of construction, including borrowing costs incurred during the period of construction.

Construction in progress is transferred to property, plant and equipment when it is ready for its intended use. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are ready for its intended use. When the assets concerned are brought to use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other losses, net" in the consolidated statement of profit or loss and other comprehensive income.

3.5 Land use rights

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

3.6 Impairment of investments in subsidiaries and non-financial assets

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Inventories

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

3.8 Financial instruments

Financial instruments (Upon application of IFRS 9 in accordance with the transition in Note 2)

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

3.8.1 Financial assets

(i) Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Upon application of IFRS 9 in accordance with the transition in Note 2) (Continued)

3.8.1 Financial assets (Continued)

(i) Classification and subsequent measurement of financial assets (Continued)

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit– impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Upon application of IFRS 9 in accordance with the transition in Note 2) (Continued)

3.8.1 Financial assets (Continued)

(i) Classification and subsequent measurement of financial assets (Continued)

Debt instruments/receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments/receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments/receivables are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments/receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments/receivables had been measured at amortised cost. When these debt instruments/receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses".

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Upon application of IFRS 9 in accordance with the transition in Note 2) (Continued)

3.8.1 Financial assets (Continued)

(ii) Impairment of financial assets

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

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix 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 as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(a) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument 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. Forward looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Upon application of IFRS 9 in accordance with the transition in Note 2) (Continued)

3.8.1 Financial assets (Continued)

(ii) Impairment of financial assets (Continued)

(a) Significant increase in credit risk (Continued)

- 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 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,

- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Upon application of IFRS 9 in accordance with the transition in Note 2) (Continued)

3.8.1 Financial assets (Continued)

(ii) Impairment of financial assets (Continued)

(a) Significant increase in credit risk (Continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(b) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(c) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit– impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;

- a breach of contract, such as a default or past due event;

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for that financial asset because of financial difficulties.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Upon application of IFRS 9 in accordance with the transition in Note 2) (Continued)

3.8.1 Financial assets (Continued)

(ii) Impairment of financial assets (Continued)

(d) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(e) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Upon application of IFRS 9 in accordance with the transition in Note 2) (Continued)

3.8.1 Financial assets (Continued)

(ii) Impairment of financial assets (Continued)

(e) Measurement and recognition of ECL (Continued)

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.

Except for investments in debt instruments/receivables that are measured at FVTOCI, 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 where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments.

3.8.2 Financial liabilities

(i) Financial liabilities at amortised cost

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

(ii) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial instruments (Prior to 1 January 2018)

3.8.3 Financial assets

(i) Classification and subsequent measurement of financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("**FVTPL**"), held-to-maturity investments, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Prior to 1 January 2018) (Continued)

3.8.3 Financial assets (Continued)

(i) Classification and subsequent measurement of financial assets (Continued)

(a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading (or contingent consideration that may be received by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other gains and losses'.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Prior to 1 January 2018) (Continued)

3.8.3 Financial assets (Continued)

(i) Classification and subsequent measurement of financial assets (Continued)

(b) AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method, and changes in foreign exchange rates, are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of revaluation reserve.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and loan receivable) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Prior to 1 January 2018) (Continued)

3.8.3 Financial assets (Continued)

(ii) Impairment of financial assets

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

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Prior to 1 January 2018) (Continued)

3.8.3 Financial assets (Continued)

(iii) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated losses.

3.8.4 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Prior to 1 January 2018) (Continued)

3.8.4 Financial liabilities and equity instruments (Continued)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

(i) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9/IAS 39 permits the entire combined contract to be designated as at FVTPL.

Prior to application of IFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liability and is included in the "other gains and losses".

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

Financial instruments (Prior to 1 January 2018) (Continued)

3.8.4 Financial liabilities and equity instruments (Continued)

Financial liabilities (Continued)

(ii) Financial liabilities at amortised cost

Financial liabilities including bank and other borrowings, trade payables and other payable are subsequently measured at amortised cost, using the effective interest method.

3.9 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.10 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, less bank overdrafts and pledged deposits. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

3.11 Share capital

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

3.12 Trade and other payables

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

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

3.13 Borrowings and borrowing costs

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Borrowings and borrowing costs (Continued)

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

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

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

3.14 Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Company's subsidiaries, associated company and jointly controlled entity operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the relevant tax authorities.

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Current and deferred income tax (Continued)

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

3.15 Employee benefits

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

3.16 Share-based payments

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

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

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

3.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of profit or loss and other comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of profit or loss and other comprehensive income on a straight– line basis over the expected lives of the related assets.

3.19 Revenue from contracts with customers (Upon application of IFRS 15 in accordance with transitions in Note 2)

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 or 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Revenue from contracts with customers (Upon application of IFRS 15 in accordance with transitions in Note 2) (Continued)

A contract asset represents the Group's right to consideration in exchange for 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.

A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

Sale with a right of return/exchange

For a sale of products with a right of return/exchange for dissimilar products, the Group recognises all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned/exchanged);

(b) a refund liability/contract liability; and

(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers.

Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Rental Income

Rental income under operating leases (net of any incentives given to the lessees) is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Revenue recognition (Prior to 1 January 2018)

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

(a) Sale of goods

Revenue from sale of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

It is the Group's policy to sell its products to the customers with a right to return due to quality issues caused by the Group. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(b) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(c) Rental income

Rental income under operating leases (net of any incentives given to the lessees) is recognised on a straight-line basis over the lease periods.

3.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders

3.22 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Related parties

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

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the group or the Group parent.

(c) An entity is related to the group if any of the following conditions applies:

(i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

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

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

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

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

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

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

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

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to market risks (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance. The directors of the Company are responsible for setting the objectives and underlying principles of financial risk management for the Group.

(a) Market risk

(i) Currency risk

The Group's dominant operations are in the PRC and most of the transactions are denominated in RMB. Entities in the Group sometimes transact in currencies other than RMB. The Group is exposed to currency risk arising from various currency exposures, primarily with respect to the Hong Kong Dollar ("**HKD**") and the United States Dollar ("**USD**").

Currency risk arises when transactions are denominated in foreign currencies.

The Group's currency exposure as at 31 December 2018 and 2017 is as follows:

	RMB RMB'000	HKD RMB'000	USD RMB'000	Total RMB'000
As at 31 December 2018				
Financial assets				
Pledged bank deposits	**64,959**	**–**	**–**	**64,959**
Cash and cash equivalents	**24,811**	**693**	**3**	**25,507**
Trade and other receivables	**282,846**	**–**	**6,926**	**289,772**
Loan receivable	**21,400**	**–**	**–**	**21,400**
Financial liabilities				
Trade and other payables	**(299,368)**	**–**	**–**	**(299,368)**
Bank borrowings	**(706,100)**	**(2,289)**	**–**	**(708,389)**
Net financial (liabilities)/assets	**(611,452)**	**(1,596)**	**6,929**	**(606,119)**
Currency exposure		**(1,596)**	**6,929**	**5,333**

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) *Market risk* (Continued)

(i) *Currency risk* (Continued)

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

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

	2018	2017
	Increase/(decrease)	
	Profit after tax RMB'000	Profit after tax RMB'000
The Group		
HKD against RMB		
– strengthened	**(80)**	(797)
– weakened	**80**	797
USD against RMB		
– strengthened	**347**	–
– weakened	**(347)**	–

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) *Market risk* (Continued)

(ii) *Cash flow and fair value interest rate risks*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's exposure to interest rate risk arises mainly from its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, while borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 December 2018, if the interest rate on all borrowings had been 100 basis points higher lower with all other variables held constant, pre-tax profit for the year ended 31 December 2018 would have been approximately RMB7,084,000 lower/higher (2017 pre-tax profit: RMB7,832,000 lower/higher), mainly as a result of higher/lower interest expense on borrowings with floating interest rates. The Group regularly monitors its interest rate risk to ensure there are no undue exposures to significant interest rate movements.

(b) Credit risk

The credit risk of the Group mainly arises from bank balances, deposits, trade receivables, loan receivable, pledged bank deposits and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2018.

The credit quality of other receivables has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of other receivables is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of the other receivables is assessed to be close to zero and no provision was made as of 31 December 2018.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information.

As at 31 December 2018, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

Majority of the Group's revenue is received from individual customers in relation to sales of jelly products, confectionery products and beverages products. The Group's trade receivables arise mainly from sales of jelly products, confectionery products and beverages product. As at the end of the year, the top five debtors and the largest debtor accounted for approximately 11.72% and 2.98% (2017: 4.81% and 1.15%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivables disclosed in the below. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 180 days (2017: 90 days) from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
Less than 30 days past due	0.76	70,086	534
31 to 90 days past due	0.87	49,192	428
Over 90 days past due	2.73	110,948	3,036
		230,226	3,998

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(b) *Credit risk* (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at the date of initial application, 1 January 2018:

	Expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
Less than 30 days past due	0.78	136,761	1,068
31 to 90 days past due	0.90	148,134	1,339
Over 90 days past due	8.95	22,124	1,981
		307,019	4,388

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach:

	Lifetime ECL (not credit-impaired)
	RMB'000
As at 31 December 2017-IAS 39	1,073
Amounts upon application of IFRS 9	3,315
As at 1 January 2018	4,388
Reversal of credit losses	(390)
As at 31 December 2018-IFRS 9	3,998

Allowance for credit losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

The Group's financial liabilities are all due within the next 12 to 36 months from the end of reporting period. The Group manage the liquidity risk by maintaining sufficient cash and banking facilities to enable them to meet their normal operating and capital commitments.

Based on the Group's history of its ability to obtain external financing and the continuing financial support by the substantial shareholders of the Company, its anticipated cash inflows from operations in the coming year and its expected future working capital requirements, the directors are of the opinion that there are sufficient financial resources available to the Group at least in the coming 12 months to meet its liabilities as and when they fall due.

(c) Liquidity risk

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date of the Group can be required to pay:

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2018					
Trade payables	**–**	**27,407**	**–**	**27,407**	**27,407**
Accruals and other payables	**–**	**271,961**	**–**	**271,961**	**271,961**
Bank borrowings	**5.51**	**730,001**	**–**	**730,001**	**708,389**
		1,029,369	**–**	**1,029,369**	**1,007,757**
As at 31 December 2017					
Trade payables	–	80,026	–	80,026	80,026
Accruals and other payables	–	251,403	–	251,403	251,403
Bank borrowings	5.39	613,266	206,809	820,075	783,239
		944,695	206,809	1,151,504	1,114,668

4 FINANCIAL RISK MANAGEMENT (Continued)

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholders' value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares or obtain new borrowings.

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

The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 **RMB'000**	2017 RMB'000
Total borrowings	**708,389**	783,239
Total equity	**667,357**	850,266
Gearing ratio	**106.1%**	92.1%

4.3 Fair value estimation

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

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to competition within the industry. Management will increase the depreciation where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or assets that have been abandoned.

(b) Employee benefits – share-based payments

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

(c) Provision of allowance for credit losses for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 19.

(d) Current and deferred income taxes

The Group is subject to income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(e) Impairment losses for property, plant and equipment

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

(f) Valuation of inventories

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

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

6 SEGMENT INFORMATION

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

The chief operating decision-maker (the "**CODM**") has been identified as the executive directors of the Company. The 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.

The 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

The 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 consolidated financial statements.

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

During the years ended 31 December 2018 and 2017, none of the individual customer accounted for 10% or more of the Group's external revenue. As at 31 December 2018 and 2017, majority of the Group's assets, liabilities and capital expenditure were located or utilised in the PRC.

6 SEGMENT INFORMATION (Continued)

	Year ended 31 December 2018				
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Revenue					
Sales to external customers *(Note)*	357,803	115,425	25,942	3,632	502,802
Cost of sales	(269,175)	(82,831)	(20,579)	(2,098)	(374,683)
Gross profit	88,628	32,594	5,363	1,534	128,119
Results of reportable segments	27,051	12,913	952	936	41,852

Note: For sales to external customer, the revenue is recognised at a point in time. All revenue contracts are for period of one year or less. As permitted by practical expedient under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

Results of reportable segments	41,852
Corporate income	15,696
Impairment loss on loan receivable	(107,100)
Corporate expenses	(98,908)
Operating loss	(148,460)
Finance income	1,385
Finance costs	(44,826)
Loss before taxation	(191,901)
Taxation	12,307
Loss for the year	(179,594)

Amounts included in the measure of segment profit or loss:

	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Amortisation of land use rights	2,381	–	935	–	3,316
Depreciation of property, plant and equipment	50,709	–	18,197	786	69,692
Loss on disposal of property, plant and equipment	10,338	–	–	–	10,338
Reversal of credit losses on trade receivables	(313)	–	(77)	–	(390)

6 SEGMENT INFORMATION (Continued)

	Year ended 31 December 2017				
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Revenue					
Sales to external customers	599,243	165,693	73,567	64,292	902,795
Cost of sales	(457,243)	(128,252)	(66,519)	(47,536)	(699,550)
Gross profit	142,000	37,441	7,048	16,756	203,245
Results of reportable segments	(108,278)	(5,129)	(11,915)	341	(124,981)

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

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

6 SEGMENT INFORMATION (Continued)

Amounts included in the measure of segment profit or loss:

	Year ended 31 December 2017				
	Jelly products RMB'000	Confectionary products RMB'000	Beverages products RMB'000	Other snacks products RMB'000	Reportable segments total RMB'000
Amortisation of land use rights	2,381	–	935	–	3,316
Depreciation of property, plant and equipment	53,533	–	21,404	1,583	76,520
Impairment loss on property, plant and equipment	94,535	–	–	–	94,535
Loss on disposal of property, plant and equipment	20,337	–	59,706	–	80,043
Impairment on trade receivables	1,073	–	–	–	1,073

Geographical information

During the years ended 31 December 2018 and 2017, the Group mainly operated in the PRC and most of the Group's revenue were derived from the PRC and most of the assets of the Group were located in the PRC as at 31 December 2018 and 2017. No analysis of the Group's result and assets by geographical area is disclosed.

7 OTHER INCOME

	2018 RMB'000	2017 RMB'000
Rental income	**9,237**	7,534
Government subsidy	**–**	2,464
Sundry income	**5,315**	–
Gain on sales of raw materials and scrap materials	**11,357**	5,097
	25,909	15,095

8 OTHER LOSSES, NET

	2018 RMB'000	2017 RMB'000
Loss on disposal of property, plant and equipment	**(10,338)**	(80,043)
Net exchange gain	**125**	1,861
	(10,213)	(78,182)

9 FINANCE COSTS, NET

	2018 RMB'000	2017 RMB'000
Finance costs:		
Interest expenses on bank borrowings	**(44,332)**	(42,219)
Interest expenses on loan from a director	**(494)**	(506)
Total finance costs	**(44,826)**	(42,725)
Finance income:		
Interest income on bank deposits	**1,385**	2,070
Total finance income	**1,385**	2,070
Finance costs, net	**(43,441)**	(40,655)

10 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	2018 **RMB'000**	2017 RMB'000
Auditors' remuneration		
– Audit service	**1,989**	2,145
– Non-audit service	**24**	24
Staff costs (including directors' remuneration)		
– Salaries and bonuses	**85,962**	113,900
– Employer's contribution to defined contribution plans	**5,943**	13,154
Advertising and promotion expenses	**37,399**	170,507
Amortisation of land use rights *(Note 14)*	**3,316**	3,316
Depreciation of property, plant and equipment *(Note 15)*	**69,692**	76,520
Loss on disposal of property, plant and equipment	**10,338**	80,043
Impairment loss on property, plant and equipment *(Note 15)*	**–**	94,535
Impairment loss on loan receivable *(Note 21)*	**107,100**	–
Impairment on trade receivables	**–**	1,073
Reversal of credit losses on trade receivables	**(390)**	–
Cost of inventory sold	**228,556**	552,667
Freight and transportation expenses	**1,169**	3,795

11 TAXATION

	2018	2017
	RMB'000	RMB'000
Current income tax – PRC Enterprise Income Tax	**–**	–
Deferred income tax, net *(Note 17)*	**(12,307)**	(38,487)
	(12,307)	(38,487)

Hong Kong Profits Tax, Bermuda and BVI Income Tax

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%.

The Group considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision of Hong Kong Profits Tax, Bermuda and BVI Income Tax has been made, as the Group did not generate any assessable profits in these jurisdictions during the year ended 31 December 2018 (2017: Nil).

PRC Enterprise Income Tax

PRC Enterprise Income Tax has been provided at the rate of 25% (2017: 25%) on taxable profits of the Group's PRC subsidiaries during the year.

No provision of PRC Enterprise Income Tax has been made as the Group's PRC subsidiaries did not generated any assessable profit during the year ended 31 December 2018 (2017: Nil).

11 TAXATION (Continued)

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

	2018 RMB'000	2017 RMB'000
Loss before taxation	**(191,901)**	(327,892)
Tax calculated at PRC applicable income tax rate of 25% (2017: 25%)	**(47,975)**	(81,973)
Effect of different tax rates of group companies operating in other jurisdictions	**877**	886
Tax effect of income not assessable for tax purpose	**(455)**	(175)
Tax effect of expenses not deductible for tax purpose	**35,246**	42,775
Tax credit for the year	**(12,307)**	(38,487)

12 LOSS PER SHARE

(a) Basic loss per share

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

	2018	2017
Net loss attributable to the equity holders of the Company (RMB'000)	**(179,594)**	(289,405)
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)	**(0.14)**	(0.22)

(b) Diluted loss per share

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

13 DIVIDENDS

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

14 LAND USE RIGHTS

	2018	2017
	RMB'000	RMB'000
Cost:		
As at 1 January and 31 December	**165,820**	165,820
Accumulated amortisation:		
As at 1 January	**31,478**	28,162
Amortisation	**3,316**	3,316
As at 31 December	**34,794**	31,478
Net book value:		
As at 31 December	**131,026**	134,342

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

15 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost:						
As at 1 January 2017	990,770	1,000,367	16,220	820	51,170	2,059,347
Additions	218,210	63,907	115	–	4,315	286,547
Transfer	–	55,485	–	–	(55,485)	–
Disposals	–	(154,777)	(700)	–	–	(155,477)
As at 31 December 2017 and 1 January 2018	1,208,980	964,982	15,635	820	–	2,190,417
Additions	120	13,327	–	–	–	13,447
Transfer	–	(28,728)	–	–	28,728	–
Disposals	–	(67,950)	–	–	–	(67,950)
As at 31 December 2018	**1,209,100**	**881,631**	**15,635**	**820**	**28,728**	**2,135,914**
Accumulated depreciation and impairment:						
As at 1 January 2017	538,703	576,866	13,486	656	–	1,129,711
Depreciation charge	15,951	59,895	510	164	–	76,520
Impairment	61,448	33,087	–	–	–	94,535
Disposals	–	(53,863)	(615)	–	–	(54,478)
As at 31 December 2017 and 1 January 2018	616,102	615,985	13,381	820	–	1,246,288
Depreciation charge	23,093	46,207	392	–	–	69,692
Disposals	–	(46,060)	–	–	–	(46,060)
As at 31 December 2018	**639,195**	**616,132**	**13,773**	**820**	**–**	**1,269,920**
Net book value:						
As at 31 December 2018	**569,905**	**265,499**	**1,862**	**–**	**28,728**	**865,994**
As at 31 December 2017	592,878	348,997	2,254	–	–	944,129

(i) The land and buildings with carrying values of approximately RMB6,955,000 (2017: RMB7,467,000) were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2018.

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

(i) Impairment loss recognised in the prior year:

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

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

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

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

As at 31 December 2017, the value-in-use amount of the property, plant and equipment of jelly segment was approximately RMB1,173,000 and impairment loss of approximately RMB94,535,000 has been recognised during the year ended 31 December 2017. No impairment has been recognised during the year ended 31 December 2018.

16 DEPOSITS FOR PROPERTY, PLANT AND EQUIPMENT

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

17 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax relate to the same fiscal authority.

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

Deferred income tax assets	**Accrued sales rebates**	**Tax losses**	**Total**
	RMB'000	RMB'000	RMB'000
As at 1 January 2017	11,451	80,552	92,003
Credited to the consolidated statement of profit or loss and other comprehensive income *(Note 11)*	204	38,283	38,487
As at 31 December 2017 and 1 January 2018	**11,655**	**118,835**	**130,490**
Credited to the consolidated statement of profit or loss and other comprehensive income *(Note 11)*	**–**	**–**	**–**
As at 31 December 2018	**11,655**	**118,835**	**130,490**

Deferred income tax liabilities	**Withholding income tax**	**Total**
	RMB'000	RMB'000
As at 1 January 2017	(31,540)	(31,540)
Charged to the consolidated statement of profit or loss and other comprehensive income *(Note 11)*	–	–
As at 31 December 2017 and 1 January 2018	**(31,540)**	**(31,540)**
Credited to the consolidated statement of profit or loss and other comprehensive income *(Note 11)*	**12,307**	**12,307**
As at 31 December 2018	**(19,233)**	**(19,233)**

As at 31 December 2018, deferred income tax assets are recognised for accrued sales rebates and tax losses, to the extent that realisation of the related tax benefits through future taxable profits is probable which are calculated in full on temporary differences under the liability method using principal tax rates of 25% (2017: 25%).

17 DEFERRED INCOME TAX (Continued)

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

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

As at 31 December 2018, there are temporary differences relating to the retained earnings of the Group's PRC subsidiaries amounted to approximately RMB703,952,000 (2017: RMB804,002,000). Deferred income tax liabilities of approximately RMB44,876,000 (2017: RMB51,143,000), have not been recognised in respect of the tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these PRC subsidiaries and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

18 INVENTORIES

	2018	2017
	RMB'000	RMB'000
Raw materials	**29,030**	43,220
Finished goods	**24,433**	20,756
	53,463	63,976

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB228,556,000 (2017: RMB552,667,000).

19 TRADE RECEIVABLES

	2018	2017
	RMB'000	RMB'000
Trade receivables	**230,226**	307,019
Less: Allowance for credit losses	**(3,998)**	(1,073)
	226,228	305,946

19 TRADE RECEIVABLES (Continued)

For the year ended 31 December 2018, the Group's revenue are generally on credit term of 180 days (2017: 90 days). As at 31 December 2018, the ageing analysis of trade receivables, based on invoice date, and net of allowance for credit losses, is as follows:

	2018 RMB'000	2017 RMB'000
Less than 30 days	**69,552**	136,761
31 days – 90 days	**48,764**	148,134
Over 90 days	**107,912**	21,051
	226,228	305,946

As at 31 December 2017, trade receivables of approximately RMB21,051,000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The Group does not hold any collateral as security over these debtors. The ageing analysis of these receivables is as follows:

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

As at 1 January 2018, impairment loss allowance of RMB3,315,000 on the trade receivables was provided upon transition to IFRS 9 Financial Instrument and reversed by RMB390,000 during the year ended 31 December 2018 as detailed in Note 4.

Included in the above allowance for credit losses on trade receivables of RMB3,998,000 (2017: RMB1,073,000). The individually impaired trade receivable relate to consumers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The carrying amounts of trade receivables approximate their fair values.

20 PREPAYMENTS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Prepayments	**69,299**	66,756
Other receivables	**63,544**	65,032
	132,843	131,788

As at 31 December 2018, prepayments mainly comprised of deposit paid for purchase of raw material of approximately RMB64,946,000 (2017: RMB64,307,000).

As at 31 December 2018, other receivables mainly comprised of value-added tax receivables of approximately RMB56,157,000 (2017: RMB58,183,000).

21 LOAN RECEIVABLE

On 19 June 2015, a wholly-owned subsidiary of the Group (the "**Lender**") entered into an entrusted loan agreement with a PRC bank, as the lending agent ("**Lending Bank**"), and an independent third party (the "**Borrower**"), pursuant to which the Lender, agreed to grant the entrusted loan in the principal amount of RMB250,000,000 (the "**Entrusted Loan**") to the Borrower (the "**Entrusted Loan Agreement**").

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

As of 31 December 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 these financial statements, the Borrower has not repaid the Outstanding Amounts.

On 10 March 2017, the Lending Bank initiated a legal proceeding (the "**Legal Proceeding**") with the Quanzhou Intermediate People's Court in the People's Republic of China ("**Quanzhou Court**") against the Borrower as well as its fellow subsidiary and its controlling shareholder (i.e. Mr. Hong) (collectively, the "**Defendants**"). On 29 March 2018, the Quanzhou Court published a judgement to order the Borrower to (a) repay the principal amount of the Entrusted Loan in the amount of RMB220,000,000; (b) pay the interests (including penalty interests and compound interests) of RMB30,200,000; (c) pay the interests (including penalty interests and compound interests) to be accrued for the period from 14 November 2017 up till the date of actual repayment; and (d) legal fee of RMB500,000.

If the Borrower failed to fulfill the court order stated above, the Lending Bank can forced sales of the assets (i.e. the land situated in Luojiang District, Quanzhou City, Fujian Province) (the "**Pledged Assets**") charged by the Borrower to the Lending Bank pursuant to the Entrusted Loan Agreement. The Lending Bank has the priority on receiving the sales proceeds of the Pledged Assets. In addition, 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 in the amount of RMB250,000,000.

Up to the date of this announcement, the Borrower fail to fulfil the court order and the Lending Bank is taking actions to force sales the Pledged Assets. 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 RMB21,400,000 representing the market value of the Pledged Assets. In order to estimate a reliable recoverable amount of the Entrusted Loan as at 31 December 2018, the directors of the Company have considered the market value of the Pledged Assets. 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, an impairment of approximately RMB107,100,000 has been provided in the consolidated financial statements of the Group for the year ended 31 December 2018.

22 PLEDGED BANK DEPOSITS

As at 31 December 2018, pledged bank deposits of the Group of approximately RMB64,959,000 (2017: RMB43,300,000) were with initial terms of over three months and pledged to banks as security for bills payable *(Note 24)*.

The weighted average effective interest rate of these bank deposits as at 31 December 2018 was 0.89% per annum (2017: 1.24% per annum). The carrying amounts of pledged bank deposits approximate their fair values.

23 CASH AND CASH EQUIVALENTS

	2018	2017
	RMB'000	RMB'000
Cash and bank balances	**25,507**	72,833

(a) The Group's cash and cash equivalents as at 31 December 2018 and 2017 are denominated in the following currencies:

	2018	2017
	RMB'000	RMB'000
RMB	**24,811**	71,563
HKD	**693**	1,267
USD	**3**	3
	25,507	72,833

Cash and cash equivalents of the Group of approximately RMB24,811,000 (2017: RMB71,563,000) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

23 CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of liabilities arising from financing activities

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

For the year ended 31 December 2018

	Bank borrowings RMB'000 *(Note 25)*	**Loan from a director** RMB'000 *(Note 24)*	**Total** RMB'000
As at 1 January 2018	783,239	22,660	805,899
Changes from financing activities:			
Proceeds from bank borrowings	556,100	–	556,100
Repayment of bank borrowings	(630,950)	–	(630,950)
Proceeds from loan from a director	–	6,861	6,861
Repayment of loan from a director	–	(23)	(23)
Interest paid	(44,332)	(494)	(44,826)
Total changes from financing cash flows	(119,182)	6,344	(112,838)
Other non-cash changes	44,332	494	44,826
As at 31 December 2018	**708,389**	**29,498**	**737,887**

23 CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of liabilities arising from financing activities (Continued)

For the year ended 31 December 2017

	Bank borrowings RMB'000 *(Note 25)*	Loan from a director RMB'000 *(Note 24)*	Total RMB'000
As at 1 January 2017	751,065	–	751,065
Changes from financing activities:			
Proceeds from bank borrowings	715,800	–	715,800
Repayment of bank borrowings	(683,626)	–	(683,626)
Proceeds from loan from a director	–	42,660	42,660
Repayment of loan from a director	–	(20,000)	(20,000)
Interest paid	(42,219)	(506)	(42,725)
Total changes from financing cash flows	(10,045)	22,154	12,109
Other non-cash changes	42,219	506	42,725
As at 31 December 2017	783,239	22,660	805,899

24 TRADE AND OTHER PAYABLES

	2018 **RMB'000**	2017 RMB'000
Trade payables	**27,407**	80,026
Bills payable *(Note (i))*	**149,910**	138,000
Accrued sales rebates	**10,398**	15,781
Other accrued expenses	**7,761**	11,016
Directors' fees and emoluments payable	**11,225**	8,836
Loan from a director *(Note (ii))*	**29,498**	22,660
Other payables and sundry creditors	**63,169**	55,110
	299,368	331,429

24 TRADE AND OTHER PAYABLES (Continued)

Note:

(i) Bills payable amounting to approximately RMB127,310,000 (2017: RMB93,000,000) were secured by pledged bank deposits of approximately RMB64,959,000 (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 agreement with Mr. Zheng Yu Long,an executive director of the Company, for a loan facility of RMB40,000,000, the Company has drawn down an aggregate amount of approximately RMB22,660,000 as at 31 December 2017. The amount is unsecured, repayable on 31 December 2018 and bears fixed interest at 2% per annum.

The loan agreement with Mr. Zheng Yu Long was renewed on 31 December 2018 for a loan facility of RMB40,000,000, the Company has drawn down an aggregate amount of approximately RMB29,498,000 as at 31 December 2018. The amount is unsecured, repayable on 31 December 2019 and bears fixed interest at 2% per annum.

The credit periods granted by suppliers generally range from 30 to 60 days. As at 31 December 2018, the ageing analysis of trade payables based on invoice date is as follows:

	2018	2017
	RMB'000	RMB'000
Less than 30 days	**20,033**	73,513
31 days – 90 days	**6,636**	6,246
Over 90 days	**738**	267
	27,407	80,026

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

25 BANK BORROWINGS

	2018 RMB'000	2017 RMB'000
Secured bank borrowings	**469,289**	483,239
Unsecured bank borrowings	**239,100**	300,000
Total bank borrowings	**708,389**	783,239
Carrying amount of bank borrowings wholly repayable:		
On demand or within 1 year	**708,389**	583,239
More than 1 year, but not exceeding 2 years	**–**	200,000
More than 2 years but not more than 5 years	**–**	–
	708,389	783,239
Less: amounts show under current liabilities	**(708,389)**	(583,239)
Amount classified as non-current liabilities	**–**	200,000

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

	2018 RMB'000	2017 RMB'000
RMB	**706,100**	780,450
HKD	**2,289**	2,789
	708,389	783,239

As at 31 December 2018, the bank borrowing of HKD2,750,000 (equivalent to approximately RMB2,289,000 (2017: HKD 3,350,000 equivalent to approximately RMB2,789,000) was secured by the land and buildings of approximately RMB6,955,000 (2017: RMB7,467,000) and charged at a floating interest rate of HIBOR + 2.25% which was repricing every month.

As at 31 December 2018, the short-term secured bank borrowings of approximately RMB150,000,000 (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 rate of 5.00% (2017: 4.92% to 5.05%) which was repricing every 12 months.

As at 31 December 2018, the short-term secured bank borrowings of approximately RMB59,000,000 (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 rate of 5.92% (2017: 5.71%) which was repricing every 3 months.

25 BANK BORROWINGS (Continued)

As at 31 December 2018, the short-term secured bank borrowings of approximately RMB198,000,000 (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 rate of 5.44% (2017: 5.22%to 5.44%) which was repricing every 3 months.

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

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

As at 31 December 2018, short-term unsecured bank borrowings of RMB89,100,000 (2017: RMB100,000,000) were repayable within 12 months and charged at fixed interest rates of 5.73% to 6.09% (2017: 5.22%to 5.74%) per annum.

As at 31 December 2018, long-term unsecured bank borrowings of RMB150,000,000 (2017: RMB200,000,000) were repayable within 2 years and charged at fixed interest rate of 5.70% (2017: 5.70%) per annum.

26 SHARE CAPITAL AND SHARE PREMIUM

Authorised share capital

As at 31 December 2018, the total authorised share capital of the Company was US$250,000,000 (2017: US$250,000,000).

Issued share capital

	Number of Shares	Amount		
	Issued share capital	Share capital	Share premium	Total share capital and share premium
	'000	RMB'000	RMB'000	RMB'000
The Company				
As at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	1,328,977	470,030	615,656	1,085,686

27 DIRECTORS' AND CHIEF EXECUTIVES EMOLUMENTS

The emolument of directors and chief executive for the year ended 31 December 2018, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is set out below:

Name of directors	Fee RMB'000	Salaries RMB'000	Other benefits RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Executive directors					
Mr. Zheng Yu Huan	–	800	15	–	815
Mr. Zheng Yu Shuang *(Note (i))*	–	800	–	–	800
Mr. Zheng Yu Long	–	800	15	–	815
Non-executive directors					
Mr. Li Hung Kong	200	–	–	–	200
Mr. Ren Yunan *(Note (ii))*	200	–	–	–	200
Independent non-executive directors					
Mr. Li Zhi Hai	200	–	–	–	200
Ms. Sun Kam Ching	200	–	–	–	200
Mr. Chung Yau Tong	200	–	–	–	200
	1,000	2,400	30	–	3,430

27 DIRECTORS' AND CHIEF EXECUTIVES EMOLUMENTS (Continued)

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

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

Notes:

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

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

During the years ended 31 December 2018 and 2017, none of the directors and chief executive of the Company waived or agreed to waive any emoluments.

During the years ended 31 December 2018 and 2017, no emoluments have been paid to the directors and chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

28 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year ended 31 December 2018 included 3 (2017: 3) directors, whose emoluments are set out in Note 27. Details of the emoluments payable to the remaining 2 (2017: 2) highest paid employees, who are neither a director nor chief executive of the Company, during the year are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries, share options and bonuses	**4,119**	4,150
Employer's contribution to defined contribution plans	**52**	55
	4,171	4,205

The emoluments of the remaining 2 highest paid employees fell within the following bands:

	Number of individuals	
	2018	2017
Nil – HK$1,000,000 (equivalent to Nil – RMB900,000)	**1**	1
HK$1,000,001 – HK$2,000,000 (equivalent to RMB900,001 – RMB1,800,000)	**1**	1

During the years ended 31 December 2018 and 2017, none of the five highest paid employees waived or agreed to waive any emoluments.

During the years ended 31 December 2018 and 2017, no emoluments have been paid to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

29 EMPLOYEE RETIREMENT BENEFITS

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

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

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

For the year ended 31 December 2018, the Group's retirement plan contributions amounted to approximately RMB5,943,000 (2017: RMB13,154,000).

30 SHARE BASED PAYMENTS

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

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

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

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

Note:

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

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

On 30 September 2014, 33,000,000 share options were granted to certain employees of the Group with an exercisable period from 1 October 2014 to 30 September 2019 at an exercise price of HK$1.19 per Share. All of these share options were immediately vested. The estimated fair value of these share options was approximately RMB6,788,000, based on the Black-Scholes valuation model. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option. The significant inputs into the model are as follows:

Date of grant:	30 September 2014
Exercise price:	HK$1.19 per Share
Expected life:	2.5 years
Risk-free rate:	1%
Expected volatility:	47%
Expected dividend yield:	2%

30 SHARE BASED PAYMENTS (Continued)

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

On 10 July 2015, 30,000,000 share options were granted to certain employees of the Group with an exercisable period from 13 July 2015 to 12 July 2020 at an exercise price of HK$0.89 per Share. All of these share options were immediately vested. The estimated fair value of these share options was approximately RMB5,928,000, based on the Black-Scholes valuation model. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option. The significant inputs into the model are as follows:

Date of grant:	10 July 2015
Exercise price:	HK$0.89 per Share
Expected life:	2.68 years
Risk-free rate:	0.97%
Expected volatility:	53.18%
Expected dividend yield:	1.55%

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

On 14 November 2016, 30,000,000 share options were granted to certain employees of the Group with an exercisable period from 15 November 2016 to 14 November 2021 at an exercise price of HK$0.47 per Share. All of these share options were immediately vested. The estimated fair value of these share options was approximately RMB5,328,000, based on the Trinomial Option Pricing valuation model. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option. The significant inputs into the model are as follows:

Date of grant:	14 November 2016
Exercise price:	HK$0.47 per Share
Expected life:	5 years
Risk-free rate:	1.16%
Expected volatility:	52.46%
Expected dividend yield:	0%

30 SHARE BASED PAYMENTS (Continued)

None of the options granted as stated above were granted to a director, chief executive or substantial shareholder of the Company nor an associate (as defined in the Listing Rules) of any of them. Save as disclosed above, no other options have been granted during the year ended 31 December 2018.

Movement of the share options during the years ended 31 December 2018 and 2017 are as follows:

					Number of ordinary shares subject to share options granted under the Share Option Scheme					
Grantee	Date of grant		Vesting period	Exercisable period	Exercise price per share HK$	Outstanding as at 1 January 2018	Granted during the year ended 31 December 2018	Exercised during the year ended 31 December 2018	Lapsed during the year ended 31 December 2018	Outstanding as at 31 December 2018
Employee	30 September 2014	Share Option 2	Immediately	1 October 2014 to 30 September 2019	1.19	33,000,000	–	–	–	33,000,000
Employee	10 July 2015	Share Option 3	Immediately	13 July 2015 to 12 July 2020	0.89	30,000,000	–	–	–	30,000,000
Employee	14 November 2016	Share Option 4	Immediately	15 November 2016 to 14 November 2021	0.47	30,000,000	–	–	–	30,000,000
				Total		93,000,000	–	–	–	93,000,000
				Exercisable at the end of the year						93,000,000
				Weighted average exercise price (HK$)		0.86	N/A	N/A	N/A	0.86

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

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

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

As the fair value of services received could not be estimated reliability by the Group for the fair value of service received in return for share options granted is measured by reference to the fair value of share options granted.

31 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**134,206**	134,206
Current assets		
Amounts due from subsidiaries	**444,171**	441,669
Prepayments and other receivables	**274**	281
Cash and cash equivalents	**690**	1,180
	445,135	443,130
Total assets	**579,341**	577,336
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**470,030**	470,030
Share premium	**615,656**	615,656
Reserves	**(557,346)**	(549,776)
Total equity	**528,340**	535,910
LIABILITIES		
Current liabilities		
Amount due to a subsidiary	**5,008**	5,008
Other payables	**45,993**	36,418
	51,001	41,426
Total liabilities	**51,001**	41,426
Total equity and liabilities	**579,341**	577,336
Net current assets	**394,134**	401,704
Total assets less current liabilities	**528,340**	535,910

The Company's statement of financial position was approved and authorised by the board of directors on 31 March 2019.

Zheng Yu Huan
Director

Zheng Yu Shuang
Director

32 PARTICULARS OF SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2018:

Name	Country of business/ incorporation	Principal activities	Equity holding
Directly held			
Timeluck International Limited	BVI	Investment holding	100%
La Bi Xiao Xin International Company Limited	BVI	Investment holding	100%
Labixiaoxin Holdings Company Limited	Hong Kong	Investment holding	100%
Labixiaoxin Investments Company Limited	Hong Kong	Investment holding	100%
Indirectly held			
蠟筆小新(福建)食品工業有限公司 Labixiaoxin (Fujian) Food Stuff Industry Co., Ltd	PRC#	Manufacture and sale of food and beverages products	100%
蠟筆小新(四川)有限公司 Labixiaoxin (Sichuan) Co., Ltd.	PRC#	Manufacture and sale of food and beverages products	100%
蠟筆小新(安徽)有限公司 Labixiaoxin (Anhui) Co., Ltd.	PRC#	Manufacture and sale of food and beverages products	100%
蠟筆小新(天津)有限公司 Labixiaoxin (Tianjin) Co., Ltd.	PRC#	Manufacture and sale of food and beverages products	100%
晉江蠟筆小新創業投資有限公司 Jinjiang Labixiaoxin Venture Capital Investment Co., Ltd.	PRC#	Investment and provision of management and consultancy services	100%

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

33 RESERVES

(a) Merger reserve

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

(b) Statutory reserves

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

(c) Share option reserves

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

34 RESERVES OF THE COMPANY

	Other reserve	**Share option reserve**	**Accumulated losses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2017	858	27,452	(570,454)	(542,144)
Loss for the year	–	–	(7,632)	(7,632)
Lapse of share option	–	(9,538)	9,538	–
Balance as at 31 December 2017 and 1 January 2018	858	17,914	(568,548)	(549,776)
Loss for the year	–	–	(7,570)	(7,570)
Balance as at 31 December 2018	**858**	**17,914**	**(576,118)**	**(557,346)**

35 COMMITMENTS

Capital commitments

As at 31 December 2018, the Group had the following capital commitments in respect of land use right and property, plant and equipment:

	2018 RMB'000	2017 RMB'000
Authorised but not contracted for		
– Land use right	**50,000**	50,000
Contracted but not provided for		
– Property, plant and equipment	**–**	–
	50,000	50,000

36 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Key management personnel compensation

	2018 RMB'000	2017 RMB'000
Directors' fee	**1,000**	1,050
Salaries and other employee benefits	**4,953**	4,987
	5,953	6,037

(b) Loan from a director

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, the Company has drawn down RMB22,660,000 as at 31 December 2017. The amount is unsecured, repayable on 31 December 2018 and bears fixed interest at 2% per annum.

The loan agreement with Mr. Zheng Yu Long was renewed on 31 December 2018 for a loan facility of RMB40,000,000, the Company has drawn down RMB29,498,000 as at 31 December 2018. The amount is unsecured, repayable on 31 December 2019 and bears fixed interest at 2% per annum.

(c) Personal guarantee provided by director

Mr. Zheng Yu Shuang, Mr. Zheng Yu Long and Mr. Zheng Yu Huan, directors of the Company, have provided personal guarantee to bank borrowings of the Group of approximately RMB267,800,000 (Note 25). The bank borrowings are repayable within one year.

37 CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2018 and 2017.

38 EVENTS AFTER THE REPORTING PERIOD

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

39 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 3.

40 AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 31 March 2019.