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Corporate Information

DIRECTORS

Executive Directors

Mr. Ding Biyan, *Chairman*
Mr. Chan Chi Ching
Dr. Liu Ta-pei
Ms. Lam Ka Lee

Independent Non-executive Directors

Mr. Ma Yiu Ho, Peter
Mr. Deng Jinping
Mr. Liao Xiujian
Mr. Wong King Shiu, Daniel

COMPANY SECRETARY

Mr. Foo Tin Chung, Victor, *HKICPA, CPA (Aust.)*

AUTHORISED REPRESENTATIVES

Mr. Chan Chi Ching
Mr. Foo Tin Chung, Victor, *HKICPA, CPA (Aust.)*

AUDIT COMMITTEE

Mr. Ma Yiu Ho, Peter, *Committee Chairman*
Mr. Deng Jinping
Mr. Liao Xiujian

REMUNERATION COMMITTEE

Mr. Liao Xiujian, *Committee Chairman*
Mr. Ding Biyan
Mr. Ma Yiu Ho, Peter

NOMINATION COMMITTEE

Mr. Deng Jinping, *Committee Chairman*
Mr. Chan Chi Ching
Mr. Liao Xiujian

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

WEBSITE OF THE COMPANY

www.hsihl.com

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Unit 4
Hejiaping Housing Committee
Deshan Town Economic and
Technological Development Zone
Changde City, Hunan Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 8A, 8/F
Aubin House
171-172 Gloucester Road
Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISERS

As to Cayman Islands Law:
Conyers Dill & Pearman

As to Hong Kong Law:
Locke Lord

PRINCIPAL BANKERS

China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
DBS Bank (Hong Kong) Limited
The Bank of East Asia

STOCK CODE

1340

Chairman's Statement

TO THE SHAREHOLDERS

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present the audited financial results of Huisheng International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the financial year ended 31 December 2016.

BUSINESS REVIEW

The Group is one of the largest pork suppliers in Changde, Hunan Province, the PRC, and is principally engaged in the production and sale of pork products, and its operations mainly involve hog slaughtering as well as hog breeding and hog farming. The Group's pork product line ranges from fresh, chilled and frozen pork, to side products as well as processed pork products including cured pork and sausages.

In January 2016, the Group intended to acquire all assets of two hog fattening farms in Hunan Province, the PRC, at a consideration of RMB85.0 million (equivalent to approximately HK\$101.2 million) from Huimin Holdings Limited and Jisheng Holdings Limited respectively (each of them was a connected person of the Company as of the date of this Proposed Acquisitions) (the "Vendors"). The said consideration was intended to be satisfied by the allotment and issuance of a total of 101,190,000 ordinary shares of the Company (the "Shares") to the Vendors (the "Proposed Acquisitions"). In October 2016, after careful consideration and further negotiations with the counterparties in light of the trend of the market development of the hog farming industry, the Company decided not to proceed with the Proposed Acquisitions. Please refer to the announcements of the Company dated 21 January 2016, 26 February 2016, 14 April 2016, 13 May 2016, 24 May 2016 and 25 October 2016 for further information regarding the Proposed Acquisitions and the termination of Proposed Acquisitions.

In June 2016, the Company entered into a placing agreement for placing 96,496,000 ordinary shares (the "Share(s)") to not less than six independent investors at a placing price of HK\$0.70 per Share (the "Placing"). The Placing was completed in July 2016 and has raised net proceeds of approximately HK\$65.8 million. The Directors are of the view that the Placing has strengthened the financial position of the Group and enabled the Group to fund any potential development and investment opportunities to be identified by the Company. It has also broadened the shareholders and the capital bases of the Company. Please refer to the announcements of the Company dated 21 June 2016 and 7 July 2016 for information regarding the Placing.

In December 2016, the Company proposed to raise approximately HK\$144.75 million, before expenses, by way of the issuance of 289,490,000 rights Shares to the qualifying shareholders at a subscription price of HK\$0.50 per rights Share on the basis of one (1) rights Share for every two (2) existing Shares held on the record date (the "Rights Issue"). The Directors consider that the Rights Issue will (i) reduce the uncertainty over the Company's financial position to repay part of the outstanding balance of such borrowings which incur high interest rate; (ii) strengthen the capital base of the Group and give the qualifying shareholders equal opportunity to maintain their respective pro-rata shareholding interests in the Company; and (iii) provide the Group with flexibility in identifying potential investment opportunities. The Rights Issue was completed in February 2017. The gross proceeds and the net proceeds of the Rights Issue were approximately HK\$144.75 million and HK\$140.53 million respectively. The Company intended to use (i) approximately HK\$87.82 million (representing approximately 62.5% of the net proceeds from the Rights Issue) for repayment of the borrowings of the Group; and (ii) approximately HK\$52.71 million (representing approximately 37.5% of the net proceeds from the Rights Issue) for general working capital of the Group and financing any future business opportunities as may be identified by the Company. Please refer to the announcements of the Company dated 15 December 2016, 28 December 2016 and 1 February 2017 for information regarding the Rights Issue.



Chairman's Statement (Continued)

Since 10 January 2017, the board lot size of the Shares for trading on the Stock Exchange was changed from 2,000 shares to 4,000 shares and it is expected to increase the value of each board lot of the Shares, as well as to reduce transaction and registration costs incurred by the shareholders and investors of the Company. The change of the board lot size will not result in any changes in the relative rights of the holders of the Shares.

OUTLOOK AND FUTURE PROSPECTS

With the rising public attention on food safety issues and the recent spoiled meat scandal spread worldwide, coupled with the changing healthy eating habits, the Company is dedicated to its founding motto to provide quality pork for the people's well-being as well as to restructure the Group to manage the business risk ahead and for the sustainable development of the Company. In 2016, the Company has well demonstrated its determination to prepare the Company on various levels for the challenges.

With the joining of some new directors who have vast business network and a wealth of experience in different areas, it brings new insights and leadership to the Company. The Company had also kick-started a few corporate actions in 2016, including the Placing and the Rights Issue (which was completed in February 2017), so that the Company is equipped with sufficient capital to develop in any potential projects and strategically refine the business of the Company. These steps in 2016 were a testimony of the Group's commitment in developing the existing business as well as looking for new business opportunities for the Group in order to generate returns to the Company and its shareholders. The Company will always remember its motto and keep our original aspirations of providing the highest quality products and also to bring higher return and benefits to the Company in the near future to come.

APPRECIATION

On behalf of the Board, I would like to express my most sincere gratitude towards the continuous support from the shareholders and the valuable contributions of the staff. The management team will continue to fulfill its duties to create value for the shareholders of the Company.

Ding Biyan
Chairman

Hong Kong, 31 March 2017

Management Discussion and Analysis

RESULTS OF OPERATIONS

For the year ended 31 December 2016, the Group recorded revenue of approximately RMB1,154.0 million, representing a decrease of approximately 23.8% from approximately RMB1,514.4 million for the year ended 31 December 2015. The reduction was mainly due to the decrease of the Group's overall slaughtering volume by approximately 36% in 2016. The slaughtering volume fell because the pork production volume had continued to be dampened by the decelerating population growth and changing diet of the Chinese people, and the pork price had remained high for so long that people started to turn to alternatives such as lamb and beef.

The average gross profit margin of the Group for the year ended 31 December 2016 was approximately 9.5% compared to approximately 11.1% for the year ended 31 December 2015. Although the average selling price of major pork products increased during 2016, the average cost of hogs rose at a relatively faster pace, leading to a decrease in the average gross profit margin. The Group is planning to make some internal restructuring for improving the worth of self-breeding hogs. The proposed actions include replacement of the existing breeder hogs to another species, and restructuring the existing breeding farms in order to fully utilize the space and equipment of the Group.

The selling and distribution expenses of the Group for the year ended 31 December 2016 was approximately RMB21.4 million, and the Group's selling and distribution expenses as a percentage of revenue remained relatively stable at approximately 1.85% and 1.41% for the years ended 31 December 2016 and 2015 respectively.

For the year ended 31 December 2016, the administrative expenses of the Group were approximately RMB54.6 million, while it was approximately RMB25.6 million in 2015. Such increment was mainly the result of written off certain property, plant and equipment with net book value of approximately RMB18.8 million, which were already used before the Listing of the Company. The Group has already run in parallel the new plants and old plants for 3 years, and the management of the Group considered that the cost of maintaining a backup plant may outweigh the benefit. It is also considered that the new production and breeding facilities are enough to support the present and future operation of the Group, and the closure of the old plants will not have any material negative impact to the continuous operation of the Group.

The Group's finance costs was approximately RMB9.4 million in 2016, while it was approximately RMB8.7 million in 2015. The increment was mainly due to the increase of borrowings, which were used for the business development and general working capital of the Group.

The profit attributable to owners of the Company in 2016 was approximately RMB70.7 million, representing a decrease of approximately 39.4% as compared with the same period of 2015. The reduction was mainly due to the decrease of sales volume during the second half of 2016 and also the written off of certain property, plant and equipment. There was also an exchange loss of approximately RMB7.0 million which was resulted from the repayment of a bank loan dominated in Hong Kong dollars by a PRC subsidiary.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

As at 31 December 2016, the Group had bank and cash balances of approximately RMB256.2 million (31 December 2015: approximately RMB249.8 million). The Group also had net current assets of approximately RMB232.7 million, which decreased by approximately RMB9.0 million as compared with that as at 31 December 2015 mainly attributable to the increase in borrowings. The total non-current assets of the Group were approximately RMB805.0 million as at 31 December 2016 (31 December 2015: approximately RMB735.6 million). The increase in the Group's total non-current assets was mainly attributable to the capital expenditure in the breeding farms.



Management Discussion and Analysis (Continued)

As at 31 December 2016, the Group had several outstanding borrowings with an aggregate amount of approximately RMB156.5 million with fixed interest rates ranging from 4.35% to 14.00% per annum.

The Group intends to finance its operations and investment with its operating revenue, internal resources and bank facilities. The Directors believe that the Group is in a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

Most of the trading transactions, assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars for the year ended 31 December 2016. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimise exposure to foreign exchange risks. As at 31 December 2016, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

CHARGE ON GROUP ASSETS

As at 31 December 2016, the Group pledged certain buildings and prepaid lease payments of approximately RMB163.1 million.

GEARING RATIO

As at 31 December 2016, the Group's gearing ratio (being its total debts which are the summation of borrowings, notes payable, loan from government and amount due to a shareholder divided by its total equity and multiplied by 100%) was approximately 15.1% (31 December 2015: approximately 15.2%).

FUTURE PLANS FOR MATERIAL INVESTMENTS

Save as disclosed in this report, the Group did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2016, the Group did not have any material acquisition and disposal of subsidiaries, associates or joint ventures.

SIGNIFICANT INVESTMENT

Save as disclosed in this report, there was no other significant investment during the year ended 31 December 2016.

CONTINGENT LIABILITIES

As at 31 December 2016, the Directors were not aware of any material contingent liabilities.

Management Discussion and Analysis (Continued)

SUBSEQUENT EVENTS

On 15 December 2016, the Company announced to raise approximately HK\$144.75 million, before expenses, by way of rights issue of 289,490,000 rights Shares to the qualifying shareholders at a subscription price of HK\$0.50 per rights Share on the basis of one (1) rights Share for every two (2) existing Shares held on the record date (the "Record Date"). The Rights Issue was completed on 2 February 2017. Please refer to the announcements of the Company dated 15 December 2016, 28 December 2016 and 1 February 2017 and the prospectus dated 9 January 2017 for information regarding the Rights Issue.

FOREIGN EXCHANGE EXPOSURE

Since almost all transactions of the Group were denominated either in Renminbi and Hong Kong dollars, and the exchange rates of such currencies were relatively stable over the year under review, the Directors believe that foreign exchange exposure does not have any significant adverse effect to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group employed 436 staff and workers in Hong Kong and the PRC (31 December 2015: 525). The Group remunerates its Directors based on the complexity of duties and responsibilities of each individual. The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include contributions to social security, medical insurance and retirement schemes and provision of appropriate training program. The Company adopted a share option scheme to enable it to grant share options to, among others, selected eligible employees as incentive or reward for their contributions.

CAPITAL STRUCTURE

Save for the Placing, there has been no change in the capital structure of the Company for the year ended 31 December 2016. As at 31 December 2016, the number of total issued Shares of the Company was 578,980,000 Shares.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. To their best of knowledge and belief, the Directors consider that the followings are the key risks and uncertainties identified by the Group as at the date of this report.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices, like hog prices and pork prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.



Management Discussion and Analysis (Continued)

Interest Risk

For interest-sensitive investments, the Group analyses its interest rate exposure on a dynamic basis and considers managing this risk in a cost-effective manner when appropriate, through various means.

Liquidity Risk

Liquidity risk is the potential risk that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

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. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken promptly.

Investment Risk

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper authorisation system has been set up and detailed analysis will be made before approving any investment. Regular updates on the progress of the investments of the Group would be submitted to the Board.

Economic Environment

All of the Group's facilities, operations and its revenue are located in and derived from Hong Kong and the PRC. The Group's results of operations and financial condition therefore depend on the economies of Hong Kong and the PRC. The economy of Hong Kong is significantly affected by the developments in the PRC and the Asia Pacific region. The PRC's economy may experience significant slowdown, and other regional economies may also deteriorate. The Group also has significant business across the PRC and part of its growth strategy is to expand into new regions. These regions have also been adversely affected by the global economic slowdown and any continued slowdown may have an adverse effect on the Group's existing operations in, and planned expansion into, these regions.

ISSUE OF NEW SHARES AND USE OF PROCEEDS

On 21 June 2016, the Company, by way of placing, placed a total of 96,496,000 placing Shares to not less than six places who and whose ultimate beneficial owners are not connected persons of the Company and are third parties independent of, and not connected with, the Company, any Director(s), chief executive(s) or substantial shareholder(s) of the Company or any of its subsidiaries or their respective associates at the placing price of HK\$0.70 per placing Share. None of the places has become a substantial Shareholder (as defined under the Listing Rules) immediately after completion. The Placing was completed on 7 July 2016 and the net proceeds of approximately HK\$65.8 million were received by the Company. The proceeds from the placing have been used for (i) approximately HK\$28.9 million for payment of operating expenses; and (ii) approximately HK\$36.9 million for addition of biological assets.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ding Biyan (丁碧燕), aged 53, is the chairman and an executive Director of the Company, being responsible for the strategic development and planning of the Group. Mr. Ding was appointed as a Director in September 2011. Mr. Ding is the founder of the Group. Prior to establishing the Group, Mr. Ding had been an engineer of Changde No. 1 Construction Company* (常德市第一建築工程有限責任公司) ("Changde Construction") since September 2000. In 2002, Mr. Ding established Jinda Commercial Concrete Co., Ltd* (常德市金達商品砼有限責任公司) ("Jinda Concrete", which engaged in cement business). Mr. Ding graduated from the CPC Hunan Provincial Committee Party School* (中共湖南省委黨校), majoring in economic management with a diploma in June 2001.

Mr. Chan Chi Ching (陳始正), aged 38, was appointed as executive Director on 7 June 2016. He has also been authorised representative of the Company and a member of nomination committee of the Company since 24 November 2016. He is also a director of various subsidiaries of the Group. Mr. Chan has extensive experience and network in media and public relations industries. He had more than 10 years of experience in editorial and management in Apple Daily Limited, a major media in Hong Kong. He is currently a director of a financial public relation firm.

Dr. Liu Ta-pei (劉大貝), aged 65, was appointed as executive Director on 16 June 2016. Dr. Liu graduated from Chung-Hsing University in Taiwan. After graduation, he continued his studies in Cheng-Chi University, Taiwan and the University of Southern California, U.S.A. and obtained Master of Law and MBA degrees respectively. He was then conferred his Doctoral degree in public administration from the University of La Verne, U.S.A. and Doctoral degree in Finance from Shanghai University of Finance and Economics. Apart from his strong educational background, Dr. Liu has been active in the financial field for more than 20 years. He was the chairman of the board and director of Mega Financial Holding Company Limited (Stock Code: 2886. TW, a company listed and traded on the Taiwan Stock Exchange). He had also been the director respectively of Universal Chinese Securities Finance Co. Ltd., Hung-Hsin Bill Co. Ltd., and Central Investment Holding Company and the chairman of Jen Hua Investment Holding Company. Dr. Liu had served China Development Industry Bank, one of the top management of Taiwan's largest Investment Banks. Dr. Liu had been the chief executive officer and an executive director of the Core Pacific Yamaichi Group. And currently, Dr. Liu is an independent non-executive director of China Vanguard Group Limited (Stock Code: 8156 a listed company on the Growth Enterprise Market of the Stock Exchange). Because of his outstanding contribution in the financial field, Dr. Liu was awarded Bronze Bauhinia Star in Hong Kong in 2013, and was ranked as one of the 'Top Ten Intelligent Financial Personnel in Greater China'. He was conferred the 'Best Integrity Award' in 2008 and was granted the honour of 'Golden Peak Award of Outstanding Corporation Leaders in Taiwan' in 1998.

Ms. Lam Ka Lee (林珈莉), aged 33, was appointed as executive Director of the Company on 16 June 2016. She is also a director of various subsidiaries of the Group. Ms. Lam holds a Bachelor of Business Accounting degree from Swinburne University of Technology. Ms. Lam has broad working experience in investment banks and in the financial field. She has been working in various renowned international financial institutions including ABN AMRO Clearing HK Ltd, Barclays Capital, Bank of America Merrill Lynch and ANZ Banking.

* Unofficial transliteration from its Chinese name for identification purposes only



Biographical Details of Directors and Senior Management (Continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ma Yiu Ho, Peter (馬遙豪), aged 52, was appointed as independent non-executive Director on 11 February 2014. He is currently the financial controller of Chyau Fwu Properties Limited, a company principally engaged in property development and hospitality. He has been a member of the Hong Kong Institute of Certified Public Accountants since February 1990 and a fellow member of the Association of Chartered Certified Accountants (UK) since April 1994. Mr. Ma obtained a master degree of business administration from the Hong Kong University of Science and Technology in November 1995. He is also a member of the Hong Kong Institute of Directors. He has over 20 years of experience in the finance and accounting field. Mr. Ma is currently an independent non-executive director, the chairman of the audit committee, and the member of the remuneration committee and nomination committee of TEM Holdings Limited (stock code: 8346) since April 2016 and an independent non-executive director and the chairman of the audit committee of Royal Catering Group Holdings Company Limited (stock code: 8300) since July 2016, both are listed companies on the Growth Enterprise Market of the Stock Exchange. He is also an independent non-executive director and chairman of the audit committee of Convoy Global Holdings Limited (stock code: 1019) and China Packaging Holdings Development Limited (stock code: 1439) since March 2010 and December 2013 respectively, both are listed companies on the Main Board of the Stock Exchange. Mr. Ma was an independent non-executive director of China Ocean Fishing Holdings Limited (Former Name: Sky Forever Supply Chain Management Group Limited) (stock code: 8047), a listed company on the Growth Enterprise Market of the Stock Exchange, from July 2014 to May 2015.

Mr. Deng Jinping (鄧近平), aged 53, was appointed as independent non-executive Director on 11 February 2014. He has been a post doctoral fellow and tutor of the College of Animal Science and Technology of Hunan Agricultural University* (湖南農業大學動物科學技術學院), and an assistant tutor, lecturer, deputy professor and tutor of master students of Jiangxi Agricultural University* (江西農業大學). Mr. Deng obtained his doctorate degree in production and application of feed crops from Hunan Agricultural University* (湖南農業大學) in December 2007.

Mr. Liao Xiujian (廖秀健), aged 49, was appointed as independent non-executive Director on 11 February 2014. He is currently a professor of Southwest University of Political Science & Law* (西南政法大學). Mr. Liao joined the social science department of Hunan Agricultural University* (湖南農業大學) in October 2001 and became a professor in November 2010. Mr. Liao obtained his doctorate degree in management from Huazhong Agricultural University* (華中農業大學) in January 2007.

Mr. Wong King Shiu, Daniel (黃景兆), aged 57, was appointed as independent non-executive Director on 7 June 2016. Mr. Wong has over 13 years of experience in natural resources industry and served as an executive director in a various natural resources company which is listed in Hong Kong. He also has extensive experience in the management and development of natural resources projects in China. He is currently an executive director and an authorized representative of China Baoli Technologies Holdings Limited (Stock Code: 164), a company listed on the main board of the Stock Exchange.

* Unofficial transliteration from its Chinese name for identification purposes only

Biographical Details of Directors and Senior Management (Continued)

SENIOR MANAGEMENT

Mr. Zhou Zhenghua (周正華), aged 54, is the production manager of Hunan Huisheng. Mr. Zhou has been the production manager of Hunan Huisheng since December 2007. Prior to joining the Group, Mr. Zhou commenced his business of hog slaughtering in 1983, and founded the hog slaughterhouse in Hucheng Zaoguo District of Changde* (常德護城皂果生豬定點屠宰場) in 1998. Mr. Zhou joined the hog slaughterhouse in Wuling District of Changde* (常德武陵區生豬機械化定點屠宰廠) in December 2003 as the head of slaughtering. Mr. Zhou was qualified as slaughtering and processing technician (屠宰加工技術人員) in the PRC in September 2010.

Mr. Zhang Jianlong (張建龍), aged 60, has been the assistant to the general manager of Hunan Huisheng since he joined the Group in November 2007. Prior to joining the Group, Mr. Zhang worked as an accountant at Sanyanggang Town of Taoyuan County* (桃源縣三陽崗鎮), engaged in project management for Changde Construction from 2001 to 2002, and acted as the deputy general manager of Jinda Concrete from 2002 to 2007.

COMPANY SECRETARY

Mr. Foo Tin Chung, Victor (傅天忠), aged 48, is the company secretary of the Company. He joined the Group in July 2013. Mr. Foo obtained a bachelor degree of commerce in accounting and information system from the University of New South Wales in Australia in April 1994 and a master degree in business administration from the Australian Graduate School of Management in July 2007. He has been a member of the Australia Society of Certified Practising Accountants since January 1998 and an associate member of the Hong Kong Institute of Certified Public Accountants since July 1999. Mr. Foo has been an independent non-executive director of Shandong Luoxin Pharmacy Stock Company Limited (stock code: 8058) since 2005, and the company secretary of China Grand Pharmaceutical and Healthcare Holdings Limited (currently known as Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.) (stock code: 512) since 2011. Mr. Foo was an executive director of Jinheng Automotive Safety Technology Holdings Limited (currently known as TUS International Limited) (stock code: 872) from December 2004 to September 2014, an independent non-executive director of Ngai Shun Holdings Limited (stock code: 1246) from March 2015 to July 2015, and an independent non-executive director of Sino Haijing Holdings Limited (Stock Code: 1106) from April 2015 to July 2016. Shares of all these companies are listed on the Stock Exchange.

* Unofficial transliteration from its Chinese name for identification purposes only



Report of the Directors

The Directors are pleased to present their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in breeding and slaughtering of hogs and sale of pork products in the PRC. The principal activities and other particulars of the Company's subsidiaries are set out in note 18 to the consolidated financial statements.

The Group's revenue for the year is principally attributable to the sale of pork products to customers. An analysis of the revenue from the principal activities during the year is set out in the section headed "Management Discussion and Analysis" in this annual report and note 7 to the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS AND DISTRIBUTABLE RESERVES

The profit of the Group for the year ended 31 December 2016 and the state of affairs of the Group and the Company as at that date are set out in the consolidated financial statements on pages 36 to 38 and page 100 respectively.

Details of the distributable reserves of the Group and the Company for the year ended 31 December 2016 are set out in the consolidated statement of changes in equity and note 36 to the consolidated financial statements respectively. As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB286,091,000 (2015: RMB223,310,000).

DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 December 2016 (2015: HK\$0.015 per Share).

FIXED ASSETS

Details of movements in fixed assets are set out in note 16 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 36 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 33 to the consolidated financial statements.

Report of the Directors (Continued)

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the law in the Cayman Islands.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holdings in the Shares.

RETIREMENT SCHEMES

The Group maintains a mandatory provident fund (the "MPF Scheme") for all qualifying employees in Hong Kong. The Group's and employee's contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employee (up to a cap of monthly relevant income of HK\$30,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

The employees in the PRC are members of state-managed retirement benefit scheme operated by the PRC government. The Company's subsidiary operating in the PRC is required to contribute a certain percentage of payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the scheme is to make the required contribution under the scheme.

BORROWINGS AND NOTES PAYABLE

Particulars of borrowings and notes payable of the Group as at 31 December 2016 are set out in notes 29 and 31 to the consolidated financial statements respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the five largest customers of the Group accounted for less than 30% of the Group's total revenue, while the five largest suppliers accounted for less than 30% of the Group's total purchases.



Report of the Directors (Continued)

The information in respect of the Group's revenue and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	revenue	purchases
The largest customer	6.2%	N/A
The five largest customers in aggregate	16.6%	N/A
The largest supplier	N/A	3.5%
The five largest suppliers in aggregate	N/A	16.8%

So far as the Board are aware, neither the Directors, their close associates nor any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

FIVE YEARS FINANCIAL SUMMARY

The summary of the results and the assets and liabilities of the Group for the last five financial years is set out on pages 105 and 106 of this annual report.

ENVIRONMENTAL POLICIES

The Group is committed to contributing to the sustainability of the environment and is committed to becoming an environmentally-friendly corporation. We have installed waste treatment facilities at our breeding farms and production base. We have adopted internal control procedures in relation to waste treatment at our breeding farms and production base, such as the processing of hog faeces into fertilisers and the biological treatment of sewage.

The details of environmental, social and governance policies and performance of the Group will be disclosed in a standalone Environmental, Social and Governance Report, which will be issued before the end of June 2017.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2016, as far as the Company is aware, there was no material breach of or non-compliance with the relevant laws and regulations by the Group that have a significant impact on the business and operations of the Group.

KEY RELATIONSHIPS

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group aims to continue to be an attractive employer for committed employees. The Group strives to motivate its employees with a clear career path and provide opportunities for advancement and improvement of their skills.

Report of the Directors (Continued)

(ii) Suppliers

The Group has developed long-standing relationships with a number of suppliers and has taken great care to ensure that they share its commitment as to quality and ethics. The Group carefully selects its suppliers and requires them to satisfy certain assessment criteria including experience, reputation and quality control effectiveness.

(iii) Customers

The Group is committed to offer quality products to its customers and keep them informed of its latest business developments.

During the year ended 31 December 2016, there was no significant dispute between the Group and its employees, suppliers and customers.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Ding Biyan (*Chairman*)
Mr. Chan Chi Ching (*Appointed on 7 June 2016*)
Dr. Liu Ta-pei (*Appointed on 16 June 2016*)
Ms. Lam Ka Lee (*Appointed on 16 June 2016*)
Mr. Yu Jishi (*Resigned on 24 November 2016*)
Mr. Ding Jingxi (*Resigned on 24 November 2016*)
Mr. Zhou Shigang (*Resigned on 16 June 2016*)

Non-executive Director

Mr. Zhang Zhizhong (*Resigned on 16 June 2016*)

Independent non-executive Directors

Mr. Ma Yiu Ho, Peter
Mr. Deng Jinping
Mr. Liao Xiujian
Mr. Wong King Shiu, Daniel (*Appointed on 7 June 2016*)

In accordance with articles 83(3) and 84 of the Articles of association of the Company, the following Directors, namely, Mr. Chan Chi Ching, Dr. Liu Ta-pei, Ms. Lam Ka Lee, Mr. Wong King Shiu, Daniel, Mr. Ding Biyan, Mr. Deng Jinping and Mr. Liao Xiujian will retire from the Board at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.



Report of the Directors (Continued)

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company. The initial term of each executive Directors under their respective service contracts is three years, which is renewable automatically for successive terms of one year after the expiry of the term of appointment, subject to termination by either party to the contract serving written notice to the other to terminate such employment to take effect three months from the date of serving such notice. Mr. Ding Biyan, the Chairman and executive Director, is also entitled to a salary plus a discretionary bonus which shall be recommended by the remuneration committee of the Board and as approved by the majority of the Board. The aggregate amount of discretionary management bonuses payable to the Directors in respect of any financial year shall be subject to the approval by the Company's shareholders in general meeting and shall not exceed five percent of the audited consolidated net profits of the Group (after taxation and minority interests but before extraordinary and exceptional items) of the same financial year.

Except for Mr. Wong King Shiu, Daniel, each of other independent non-executive Directors has been appointed pursuant to a letter of appointment for a term of two years, which is renewable automatically for successive terms of one year after the expiry of the term of appointment, unless terminated by not less than one month's notice in writing served by either party.

Mr. Wong King Shiu, Daniel, has been appointed pursuant to a letter of appointment for a term of three years, which is renewable automatically for successive terms of one year after the expiry of the term of appointment, unless terminated by not less than three months notice in writing served by either party.

Save for their remuneration, none of the non-executive Director or the independent non-executive Directors is expected to receive any other emoluments for holding their office as a non-executive Director or an independent non-executive Director.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' EMOLUMENTS

Details of Directors' emoluments on a named basis are set out in note 12 to the consolidated financial statements.

REMUNERATION OF SENIOR MANAGEMENT

The number of senior management whose remuneration fell within the following band is as follows:

	2016	2015
Nil to HK\$1,000,000	3	3

Report of the Directors (Continued)

SHARE OPTION SCHEME

The Company adopted a share option scheme on 11 February 2014 (the "Share Option Scheme"), which was effective upon listing. The purpose of the Share Option Scheme is to provide incentives or rewards to eligible participants (including employees, executives or officers, directors including non-executive directors and independent non-executive directors, advisers, consultants, suppliers and customers of the Company or any of its subsidiaries) for their contribution to the Group. The Share Option Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from the date of which the Share Option Scheme is adopted. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options and subject to the provisions for early termination as set out in the Share Option Scheme. There is no requirement of a minimum period for which an option must be held before it can be exercised. The exercise price of the share options shall be not less than the highest of (i) the closing price of the shares of the Company on the Stock Exchange on the date of offer of the share options, which must be a date on which the Stock Exchange is open for business of dealing in securities; (ii) the average closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

The total number of securities available for issue under the Share Option Scheme as at 31 December 2016 was 40,000,000 shares which represented approximately 6.9% of the issued share capital of the Company. No option had been granted or agreed to be granted during the reporting period.

At no time during the reporting period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

COMPETING INTEREST

None of the Directors or the controlling shareholders had an interest in any business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.



Report of the Directors (Continued)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Save as disclosed in the section under "Share Option Scheme", as at 31 December 2016 and as at the date of this report, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under Section 336 of the SFO.

Report of the Directors (Continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

Long position in issued ordinary shares of the Company

Name	Capacity	Number of ordinary shares of the Company held (Note 1)	Approximately percentage of the total issued shares of the Company (%) (Note 2)	Notes
Able Power Corporate Development Limited ("Able Power")	Beneficial Owner	258,661,092 (L)	29.78%	3
Mr. Wong Kui Shing, Danny ("Mr. Wong")	Interest of a controlled corporation	258,661,092 (L)	29.78%	4
	Beneficial Owner	81,000 (L)	0.01%	5
Kingston Securities Limited ("Kingston Securities")	Other	203,242,636 (L)	23.40%	6
Galaxy Sky Investment Limited ("Galaxy Sky")	Interest of a controlled corporation			6,7
Kingston Capital Asia Limited ("Kingston Capital")	Interest of a controlled corporation	203,242,636 (L)	23.40%	6,7
Kingston Financial Group Limited ("Kingston Financial")	Interest of a controlled corporation	203,242,636 (L)	23.40%	6,7
Active Dynamic Limited ("Active Dynamic")	Interest of a controlled corporation	203,242,636 (L)	23.40%	6,7
Chu Yuet Wah ("Ms. Chu")	Interest of a controlled corporation	203,242,636 (L)	23.40%	6,7

Notes:

- "L" denotes a long position whilst letter "S" denotes a short position.
- The total number of 578,980,000 Shares in issue as at 31 December 2016, yet the percentage is calculated with reference to the total number of 868,470,000 Shares in issue upon completion of Rights Issue.
- Among the 258,661,092 Shares held by Able Power, 86,220,364 Shares were underlying Shares irrevocably undertaken by Able Power in favor of the Company to subscribe for 86,220,364 Rights Shares to which Able Power was entitled to under the Rights Issue.
- The 258,661,092 Shares are legally owned by Able Power which is wholly and beneficially owned by Mr. Wong. By virtue of the SFO, Mr. Wong is deemed to be interested in the 258,661,092 Shares.
- Among the 81,000 Shares beneficially held by Mr. Wong, 27,000 Shares were underlying Shares irrevocably undertaken by Mr. Wong in favor of the Company to subscribe for 27,000 Rights Shares to which Mr. Wong was entitled to under the Rights Issue.
- The 203,242,636 Shares are the rights shares which Kingston Securities, the underwriter of the Rights Issue, is interested under the Underwriting Agreement dated 15 December 2016 entered into between the Company and Kingston Securities, on the assumption of no acceptance by the Qualifying Shareholders (as defined in the prospectus dated 9 January 2017) under the Rights Issue.



Report of the Directors (Continued)

- Kingston Securities is a wholly-owned subsidiary of Galaxy Sky, which is wholly owned by Kingston Capital. Kingston Capital is wholly owned by Kingston Financial. Active Dynamic owns 49.19% interest in Kingston Financial. Mrs. Chu Yuet Wah owns 100% interest in Active Dynamic Limited. Accordingly, each of Galaxy Sky, Kingston Capital, Active Dynamic and Ms. Chu was deemed to be interested in the Shares interested by Kingston Securities pursuant to Part XV of the SFO.

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save for the service contracts and letters of appointment entered into with the respective Directors, no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries, fellow subsidiaries or its parent companies was a party and in which a Director or any entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or any time during the year under review.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each independent non-executive Director a written confirmation of independence under Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2016.

RELATED PARTY TRANSACTIONS

Related party transactions entered into by the Group for the year ended 31 December 2016 are disclosed in note 42 to the consolidated financial statements. Save as disclosed in this report, there were no other connected transactions or non-exempted continuing connected transactions under the Listing Rules as at the date of this report.

AUDITORS

HLB Hodgson Impey Cheng Limited will retire and a resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint them as auditors of the Company.

On behalf of the Board
Ding Biyan
Chairman

Hong Kong, 31 March 2017

Corporate Governance Report

The Company is committed to adopting and maintaining a high standard of corporate governance practices and procedures. The Company has adopted and complied with the code provisions (the "Code Provisions") contained in the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "Corporate Governance Code").

THE BOARD

The Board is responsible for managing the Company on behalf of the shareholders of the Company. The Board is of the view that it is the Directors' responsibilities to create value for shareholders and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith. The management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

The Board comprises eight Directors, including four executive Directors — Mr. Ding Biyan, Mr. Chan Chi Ching, Dr. Liu Ta-pei and Ms. Lam Ka Lee, and four independent non-executive Directors — Mr. Ma Yiu Ho, Peter, Mr. Deng Jinping, Mr. Liao Siujian and Mr. Wong King Shiu, Daniel, in compliance with the requirement of Listing Rules which states that every board of Directors of an issuer must include at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The list of Directors during the year and up to the date of this report is set out on page 15 and the biographical details of the Directors and relevant relationships among them are set out on pages 9 to 11 of this report. Save as disclosed therein, there is no financial, business, family or other material or relevant relationship among the Directors.

Subject to the provisions contained in the Company's articles of association, the term of office of the independent non-executive Directors, namely Mr. Ma Yiu Ho, Peter, Mr. Deng Jinping and Mr. Liao Siujian shall expire on 28 February 2018.

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realising the strategies and goals of the Group;
- overseeing the corporate governance functions of the Company and being held accountable for the internal control system of the Company and responsible for reviewing its effectiveness;
- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Company in a balanced, clear and comprehensible manner. These responsibilities are applicable to interim and annual reports of the Company, other inside information announcements published according to the Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information discloseable under statutory requirements;
- whilst executive Directors/chief executives, who oversee the overall business of the Company, are responsible for the daily operations of the Company, the Board is responsible for affairs involving the overall policies, finance and shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy;

Corporate Governance Report (Continued)

- the management is well informed of its power with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company; and
- regularly reviewing its own functions and the powers conferred upon executive Directors/chief executives to ensure appropriate arrangements are in place.

COMMITMENTS

The full Board should meet at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person. Opinions of the non-executive Director and independent non-executive Directors are actively sought by the Company if they are unable to attend the meeting in person.

During the year ended 31 December 2016, 22 Board meetings and one general meeting were held and the attendance records of the Directors are set out below:

	Attendance/Number of general meeting	Attendance/Number of board meetings
Executive Directors		
Mr. Ding Biyan	1/1	6/22
Mr. Chan Chi Ching <i>(Appointed on 7 June 2016)</i>	N/A	17/17
Dr. Liu Ta-pei <i>(Appointed on 16 June 2016)</i>	N/A	12/13
Ms. Lam Ka Lee <i>(Appointed on 16 June 2016)</i>	N/A	13/13
Mr. Yu Jishi <i>(Resigned on 24 November 2016)</i>	1/1	6/19
Mr. Ding Jingxi <i>(Resigned on 24 June 2016)</i>	1/1	6/11
Mr. Zhou Shigang <i>(Resigned on 16 June 2016)</i>	1/1	6/8
Non-executive Director		
Mr. Zhang Zhizhong <i>(Resigned on 16 June 2016)</i>	1/1	6/8
Independent Non-Executive Directors		
Mr. Ma Yiu Ho, Peter	1/1	6/22
Mr. Deng Jinping	1/1	6/22
Mr. Liao Xiujian	1/1	6/22
Mr. Wong King Shiu, Daniel <i>(Appointed on 7 June 2016)</i>	N/A	17/17

EXPERIENCE

Executive and non-executive Directors possess administrative leadership, diversified expertise and extensive industrial management experience. Independent non-executive Directors possess extensive expertise, experience and judging capability in various fields, in particular the appropriate accounting qualifications possessed by Mr. Ma Yiu Ho, Peter. During its decision-making process, the Board holds in high regard the views of the independent non-executive Directors, who serve as the effective direction of the Group's operations.

Corporate Governance Report (Continued)

CODE FOR DEALING IN SECURITIES OF THE COMPANY

The Company has adopted a model code of practice for securities dealings by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code. The Company has confirmed, after making specific enquiries with the Directors in accordance with the code of practice, that all the Directors have complied with the Model Code during the year ended 31 December 2016.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines"), governing securities transactions by employees (including directors or employees of a subsidiary or holding company of the Company) who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2016.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Ding Biyan is the Chairman of the Board (the "Chairman"). The Chairman is responsible for the strategic development and planning of the Group.

Mr. Yu Jishi ("Mr. Yu"), was the chief executive officer of the Company (the "Chief Executive Officer") until his resignation as executive Director on 24 November 2016.

The Company does not have the role of chief executive officer since the resignation of Mr. Yu. The chief executive officer's duties have then been undertaken by members of the Board. They are responsible for corporate planning, business development strategy and overall direction of the Group. The senior management is responsible for the day-to-day operations of the Group under the leadership of the Board.

BOARD OF DIRECTORS

During their terms of office, the Directors all carried out their work in a dedicated, diligent and proactive manner with reasonable prudence. Meanwhile, they carried out the duties of directors imposed by the relevant company laws of the Cayman Islands and Hong Kong, the articles of association of the Company and the Listing Rules, complied with the relevant requirements, strictly implemented resolutions of general meetings, promoted the continuous and healthy development of the Company's operations, oversaw the corporate governance of the Company, pressed for the improvement of the governance standard of the Company and exerted the decision-making function of the Board in its full swing. The terms of appointment of each of the non-executive Directors are set out on page 16 of this report. None of the independent non-executive Directors holds any other offices in the Company or any of its subsidiaries. Within the meaning of the laws and regulations issued by relevant securities regulatory authorities, none of the independent non-executive Directors is interested in any shares of the Company. The Company has received from each of the independent non-executive Directors a written confirmation of his independence under Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.



Corporate Governance Report (Continued)

REMUNERATION COMMITTEE

The Company established a remuneration committee on 11 February 2014 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, which is available on the website of the Stock Exchange and the Company. The duties of the remuneration committee, under the principle that no Director should be involved in deciding his own remuneration, include, without limitation, (a) making recommendations to the Board on the Company's policy and structure for the remuneration of all of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to the Board on the remuneration packages of the executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their offices or appointments, and making recommendations to the Board of the remuneration of the non-executive Directors; and (c) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives. The remuneration committee consists of Mr. Liao Xiujian, Mr. Ding Biyan and Mr. Ma Yiu Ho, Peter. Mr. Liao Xiujian is the chairman of the remuneration committee.

In 2016, the remuneration committee held three meetings to review the remuneration policy for all Directors and senior management. Details of attendance of members at meeting of the remuneration committee held during the year ended 31 December 2016 are set out as follows:

	Attendance/Number of meetings
Mr. Liao Xiujian	3/3
Mr. Ding Biyan	3/3
Mr. Ma Yiu Ho, Peter	3/3

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The main aims of the Company's remuneration policy are:

- to ensure that none of the Directors or any of their associates should determine their own remuneration;
- the remuneration should be broadly aligned with companies with which the Company competes for human resources;
- the Group should aim to attract and retain executives and to motivate them to pursue appropriate growth strategies whilst take into account individual performance and should avoid paying more than necessary for such purpose; and
- the remuneration should reflect the performance, complexity of duties and responsibility of the individual.

Corporate Governance Report (Continued)

NOMINATION COMMITTEE

The Company established a nomination committee on 11 February 2014 with written terms of reference in compliance with paragraph A5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, which is available on the website of the Stock Exchange and the Company. The duties of the nomination committee include, without limitation, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Group's corporate strategy; (b) identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; (c) assessing the independence of the independent non-executive Directors; (d) reviewing the effectiveness of the board diversify policy; and (e) making recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the chairman and the chief executive. The nomination committee consists of Mr. Deng Jinping, Mr. Chan Chi Ching and Mr. Liao Xiujian. Mr. Deng Jinping is the chairman of the nomination committee.

In 2016, the nomination committee held three meetings to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company. Details of attendance of members at meeting of the nomination committee held during the year ended 31 December 2016 are set out as follows:

	Attendance/Number of meetings
Mr. Deng Jinping	3/3
Mr. Yu Jishi (<i>Resigned on 24 November 2016</i>)	3/3
Mr. Liao Xiujian	3/3
Mr. Chan Chi Ching (<i>Appointed on 24 November 2016</i>)	0/0

AUDIT COMMITTEE

The Company established an audit committee on 11 February 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code, which is available on the website of the Stock Exchange and the Company. The duties of the audit committee include, without limitation, (a) making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring integrity of the Group's financial statements, annual report and accounts and half-year report, and reviewing significant financial reporting judgments contained therein; and (c) reviewing the Group's financial controls, risk management and internal control systems. The audit committee consists of Mr. Ma Yiu Ho, Peter, Mr. Deng Jinping and Mr. Liao Xiujian. Mr. Ma Yiu Ho, Peter is the chairman of the audit committee.

The audit committee held three meetings during the year ended 31 December 2016 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.



Corporate Governance Report (Continued)

Details of attendance of members at meetings of the audit committee held during the year ended 31 December 2016 are set out as follows:

	Attendance/Number of meetings
Mr. Ma Yiu Ho, Peter	3/3
Mr. Deng Jinping	3/3
Mr. Liao Xiujian	3/3

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness. The Company has an internal audit team which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems and reports to the Board. The Board also ensures that the review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

During the year ended 31 December 2016, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The audit committee of the Company also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. Such review in the year ended 31 December 2016 did not reveal any major issues and the Board considers our risk management and internal control systems effective and adequate. The Group's review procedures involved in the risk management and internal control mainly included:

- (1) A list of risks was created after the scope of risks was determined and risks were identified.
- (2) The impacts brought by possible financial losses due to risks on operating efficiency, continuous development, and reputation were assessed with reference to possible occurrence of various potential risks and the attention drawn from the management of the Group, based on which the priority of the risks was determined.
- (3) Our risk management measures with respect to material risks were identified, internal control over the design and implementation of risk management measures were assessed, and measures to improve the weaknesses were formulated.
- (4) By assessing internal controls and management's implementation of rectification measures with respect to material risks, the Group regularly reviewed and summarized the risk management and internal control systems to realize the efficient operation and constant improvement of risk management.
- (5) The risk management handbook was formulated to address risk management and internal control, pursuant to which, the terms of reference of the management, the Board, and the Audit Committee with respect to their risk management work were clearly determined, and risk management and internal control systems were monitored on an ongoing basis.

Corporate Governance Report (Continued)

- (6) The management submitted reports to the Audit Committee on regular reviews and assessment results with respect to risk management and internal control systems, material risk factors, and the relevant countermeasures.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.
- Confidentiality agreements are in place when the Group enters into significant negotiations.
- The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge that it is the responsibility of the Directors to prepare the accounts for each financial period. Subsequent to each reporting period, interim or annual financial highlights and business review are published as soon as possible (or in accordance with the Listing Rules, as the case may be) to disclose all information that are necessary for shareholders to assess the performance, financial conditions and prospects of the Company. The Directors are not aware of any material uncertainties relating to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

The Board has the responsibility to regularly review the internal control and risk management systems of the Company to ensure their effectiveness and efficiency. With the support of the internal audit team, the practices, processes, expenses and internal control of the Company and its subsidiaries are reviewed on a regular basis. Matters of importance reported by the internal audit team are monitored regularly by the management to ensure remedial measures are implemented as appropriate. The Board and senior management may also require the internal audit team to conduct auditing procedures on special scopes of importance and report significant findings to the Board and the audit committee.

During the year under review, the remuneration payable for audit services provided by the auditors is approximately RMB1.0 million. No non-audit service was provided by the auditors during the year under review.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for the corporate governance functions of the Company. Details of the corporate governance functions are summarised as follows:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices to ensure compliance with legal and regulatory requirements;



Corporate Governance Report (Continued)

- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the Code Provisions and its disclosure requirements in the Corporate Governance Report.

The work performed by the Board on corporate governance functions during the year ended 31 December 2016 included developing and reviewing the Company's policies on corporate governance and review the Company's compliance with the Code Provisions.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy which aims to set out the approach to achieve diversity on the Board. The Company aims to build and maintain a Board with a diversity of Directors, in terms of skills, experience, knowledge, expertise, culture, independence, age and gender that appropriate for the requirements of the business development of the Group.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association of the Company, every director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year.

Corporate Governance Report (Continued)

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Up to the date of this annual report, the Directors complied with the paragraph A.6.5 of the Code Provision on participation in continuous professional training as follows:

	Mode of participation	
	a	b
Executive Directors		
Mr. Ding Biyan	✓	✓
Mr. Chan Chi Ching <i>(Appointed on 7 June 2016)</i>	✓	✓
Dr. Liu Ta-pei <i>(Appointed on 16 June 2016)</i>	✓	✓
Ms. Lam Ka Lee <i>(Appointed on 16 June 2016)</i>	✓	✓
Mr. Yu Jishi <i>(Resigned on 24 November 2016)</i>	✓	✓
Mr. Ding Jingxi <i>(Resigned on 24 June 2016)</i>	✓	✓
Mr. Zhou Shigang <i>(Resigned on 16 June 2016)</i>	✓	✓
Non-executive Director		
Mr. Zhang Zhizhong <i>(Resigned on 16 June 2016)</i>	✓	✓
Independent Non-Executive Directors		
Mr. Ma Yiu Ho, Peter	✓	✓
Mr. Deng Jinping	✓	✓
Mr. Liao Xiujian	✓	✓
Mr. Wong King Shiu, Daniel <i>(Appointed on 7 June 2016)</i>	✓	✓

a: Directors received regular briefings and updates from the Company Secretary/the Company's management on the Group's business, operations and corporate governance matters.

b: Directors read technical bulletins, periodicals and other publications on subjects relevant to the Group and/or on their responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

COMPANY SECRETARY

Mr. Foo Tin Chung, Victor, the company secretary of the Company, has confirmed the completion of relevant professional training of over 20 hours.



Corporate Governance Report (Continued)

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- delivery of the interim and annual results and reports to all shareholders;
- publication of announcements on the interim and annual results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- the general meeting of the Company is also an effective communication channel between the Board and shareholders.

The Board has maintained an on-going dialogue with the shareholders and investors of the Company, and will regularly review this policy to ensure its effectiveness. Information will be communicated to the shareholders and investors mainly through the Company's financial reports (interim and annual reports), annual general meeting and other general meetings that may be convened, as well as by making available all the information submitted by the Company to the website of the Stock Exchange and its corporate communications on the Company's website. Shareholders can direct their questions about their shareholdings to the Company's branch share registrar in Hong Kong. Shareholders and investors may at any time make a request for the Company's information to the extent such information is publicly available.

SHAREHOLDERS' RIGHTS

1. Procedure for Shareholders to convene an extraordinary general meeting

Any one or more Shareholders (the "Requisitionist(s)") holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition (the "Requisition") to the Board or the company secretary of the Company, to require an extraordinary general meeting (the "EGM") to be called by the Board for the transaction of any business specified in such requisition. The Requisition shall be made in writing to the Board or the company secretary of the Company at the following:

Principal place of business of the Company in Hong Kong

Address: Unit 8A, 8/F, Aubin House, 171-172 Gloucester Road, Wan Chai, Hong Kong

Email: info@hsihl.com

Attention: Board of Directors/Company Secretary

The Requisition must state clearly the name of the Requisitionist(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda of the EGM including the details of the business(es) proposed to be transacted at the EGM, signed by the Requisitionist(s) concerned.

The Company will check the Requisition and the identity and the shareholding of the Requisitionist(s) will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the Board will convene the EGM within two months and/or include the proposal or the resolution proposed by the Requisitionist(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Requisitionist(s) concerned will be advised of this outcome and accordingly, the Board will not convene an EGM and/or include the proposal or the resolution proposed by the Requisitionist(s) at the EGM.

Corporate Governance Report (Continued)

If within 21 days of such deposit the Board has not advised the Requisitionist(s) of any outcome to the contrary and fails to proceed to convene the EGM, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

2. Procedures for raising enquiries

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

Principal place of business of the Company in Hong Kong

Address: Unit 8A, 8/F, Aubin House, 171-172 Gloucester Road, Wan Chai, Hong Kong

Email: info@hsihl.com

Attention: Board of Directors/Company Secretary

Shareholders may also make enquiries with the Board at the general meetings of the Company.

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

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal ("Proposal") with his/her/its detailed contact information at the principal place of business of the Company in Hong Kong at Unit 8A, 8/F, Aubin House, 171-172 Gloucester Road, Wan Chai, Hong Kong.

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

- (a) Notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days in writing if the Proposal requires an ordinary resolution or a special resolution of the Company in an annual general meeting of the Company;
- (b) Notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days in writing if the Proposal requires approval by way of a special resolution of the Company in an extraordinary general meeting of the Company; and
- (c) Notice of not less than fourteen (14) clear days and not less than ten (10) clear business days in writing if the Proposal requires approval by way of an ordinary resolution of the Company in an extraordinary general meeting of the Company.

CONSTITUTIONAL DOCUMENTS

On 11 February 2014, the Company adopted the second amended and restated memorandum of association with immediate effect, and the second amended and restated articles of association, which were effective upon listing. These are available on the websites of the Company and the Stock Exchange. There was no change to the constitutional documents of the Company during the year ended 31 December 2016.



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 HUISHENG INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Huisheng International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 104, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 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 Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Independent Auditors' Report (Continued)



Key audit matter	How our audit addressed the key audit matter
<p>Fair value of biological assets</p> <p><i>Refer to Note 21 and Note 4 to the consolidated financial statements.</i></p> <p>The Group's biological assets were carried at approximately RMB103,383,000 as at 31 December 2016 with a gain arising from change in fair value for the year ended 31 December 2016 recorded in the consolidated statement of profit or loss of approximately RMB16,259,000.</p> <p>The management of the Company engaged an independent valuer to assess the fair value of the biological assets as at 31 December 2016.</p> <p>The biological assets were significant to the Group. Management's assessment of the fair value of biological assets involve significant judgements and estimates. The most significant assumptions and valuation parameters used in the valuation include the estimated quantities, weight, age and the related market prices of biological assets applied.</p>	<p>Our procedure in relation to the fair value of biological assets included:</p> <ul style="list-style-type: none"> • evaluating of the independent external valuer's competence, capabilities and objectivity; • assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts; • discussing with the independent external valuer and challenging the reasonableness of key assumptions and valuation parameters used in the valuation based on our knowledge of the business and industry; and • checking, on sampling basis, the accuracy and relevance of the input data used. <p>We found the fair value of the biological assets to be supported by the available evidence.</p>

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("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 this Other Information, we are required to report that fact. We have nothing to report in this regard.



Independent Auditors' Report (Continued)

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism 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.

Independent Auditors' Report (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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the 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 Hon Koon Fai, Alex.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Hon Koon Fai, Alex

Practising Certificate Number: P05029

Hong Kong, 31 March 2017



Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	7	1,154,016	1,514,428
Cost of sales		(1,044,712)	(1,346,758)
Gross profit		109,304	167,670
Other income	7	4,016	5,777
Gain/(loss) arising from change in fair value less costs to sell of biological assets	21	16,259	(363)
Gain arising from change in fair value of financial assets at fair value through profit or loss		18,181	-
Gain arising on disposal of financial assets at fair value through profit or loss		9,528	-
Selling and distribution expenses		(21,366)	(21,424)
Administrative expenses		(54,558)	(25,595)
Finance costs	9	(9,361)	(8,693)
Profit before taxation		72,003	117,372
Taxation	10	(2,684)	-
Profit for the year	11	69,319	117,372
Other comprehensive income for the year:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		799	2,565
Other comprehensive income for the year, net of income tax		799	2,565
Total comprehensive income for the year		70,118	119,937
Profit/(loss) for the year attributable to:			
Owners of the Company		70,701	116,694
Non-controlling interests		(1,382)	678
		69,319	117,372
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		71,500	119,259
Non-controlling interests		(1,382)	678
		70,118	119,937
Earnings per share attributable to owners of the Company			
Basic and diluted (RMB cents per share) (restated)	15	13.3	25.8

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016



	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	16	702,850	640,530
Prepaid lease payments	17	33,610	34,360
Biological assets	21	34,791	28,743
Deposits and prepayments for property, plant and equipment	24	32,247	30,466
Available-for-sale investment	19	1,500	1,500
		804,998	735,599
Current assets			
Financial assets at fair value through profit or loss	20	25,855	–
Biological assets	21	68,592	25,909
Inventories	22	8,706	13,319
Prepaid lease payments	17	886	840
Trade receivables	23	42,679	183,847
Prepayments, deposits and other receivables	24	35,404	17,858
Bank balances and cash	25	256,232	249,783
		438,354	491,556
Current liabilities			
Trade payables	26	11,043	140,107
Accruals and other payables	27	34,775	30,924
Amount due to a shareholder	28	–	1,992
Borrowings	29	156,493	76,731
Deferred revenue	32	525	49
Tax payable		2,809	–
		205,645	249,803
Net current assets		232,709	241,753
Total assets less current liabilities		1,037,707	977,352



Consolidated Statement of Financial Position (Continued)

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Loan from government	30	-	476
Notes payable	31	-	59,816
Deferred revenue	32	353	378
		353	60,670
Net assets		1,037,354	916,682
Equity			
Share capital	33	4,632	3,801
Reserves		1,028,549	907,326
Equity attributable to owners of the Company		1,033,181	911,127
Non-controlling interests		4,173	5,555
Total equity		1,037,354	916,682

Approved by the Board of Directors on 31 March 2017 and signed on its behalf by:

Chan Chi Ching
Executive Director

Lam Ka Lee
Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016



	Share capital	Share premium	Exchange reserve	Statutory surplus reserve	Other reserve	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (note (a))	RMB'000 (note (b))	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2015	3,168	186,766	1,643	26,888	17,091	485,293	720,849	4,877	725,726
Profit for the year	-	-	-	-	-	116,694	116,694	678	117,372
Other comprehensive income for the year	-	-	2,565	-	-	-	2,565	-	2,565
Total comprehensive income for the year	-	-	2,565	-	-	116,694	119,259	678	119,937
Transfer to statutory reserve	-	-	-	11,790	-	(11,790)	-	-	-
Issue of shares under placing (note 33(a))	633	78,396	-	-	-	-	79,029	-	79,029
Share issue expenses	-	(2,279)	-	-	-	-	(2,279)	-	(2,279)
Dividends (note 14)	-	-	-	-	-	(5,731)	(5,731)	-	(5,731)
As at 31 December 2015 and 1 January 2016	3,801	262,883	4,208	38,678	17,091	584,466	911,127	5,555	916,682
Profit/(loss) for the year	-	-	-	-	-	70,701	70,701	(1,382)	69,319
Other comprehensive income for the year	-	-	799	-	-	-	799	-	799
Total comprehensive (loss)/income for the year	-	-	799	-	-	70,701	71,500	(1,382)	70,118
Transfer to statutory reserve	-	-	-	3,266	-	(3,266)	-	-	-
Issue of shares under placing (note 33(b))	831	57,372	-	-	-	-	58,203	-	58,203
Shares issue expenses	-	(1,455)	-	-	-	-	(1,455)	-	(1,455)
Dividends (note 14)	-	-	-	-	-	(6,194)	(6,194)	-	(6,194)
As at 31 December 2016	4,632	318,800	5,007	41,944	17,091	645,707	1,033,181	4,173	1,037,354

Notes:

- (a) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiary is required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiary in accordance with the relevant laws and regulations applicable to the PRC enterprise. The appropriation may cease to apply if the balance of statutory surplus reserve has reached 50% of the PRC subsidiary registered capital. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.
- (b) Other reserve represents the capital contributions from the owners of the subsidiaries now comprising the Group before the completion of the reorganisation on 10 November 2011.

The accompanying notes form an integral part of these consolidated financial statements.



Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before taxation		72,003	117,372
Adjustments for:			
Interest income	7	(942)	(1,061)
Finance costs	9	9,361	8,693
Depreciation of property, plant and equipment	11	36,228	26,849
Written-off of property, plant and equipment	11	18,765	-
Amortisation of prepaid lease payments	11	880	831
Net foreign exchange loss	11	7,025	-
Loss/(gain) from selling of non-current biological assets	11	3,224	(672)
Gain arising from change in fair value of financial assets at fair value through profit or loss		(18,181)	-
Gain on disposal of financial assets at fair value through profit or loss		(9,528)	-
(Gain)/loss arising from change in fair values less costs to sell of biological assets		(16,259)	363
Operating cash flows before movements in working capital			
Decrease in biological assets		81,764	65,837
Decrease/(increase) in inventories		4,613	(105)
Decrease/(increase) in trade receivables		141,168	(49,357)
Increase in prepayments, deposits and other receivables		(18,005)	(16,954)
(Decrease)/increase in trade payables		(129,064)	22,783
Increase in accruals and other payables		2,318	6,240
Net cash generated from operating activities			
Investing activities			
Interest received		917	1,009
Purchase of property, plant and equipment		(117,313)	(289,749)
Addition of non-current biological assets		(125,949)	(84,898)
Proceeds on disposals of non-current biological assets		8,489	904
Purchase of prepaid lease payments		(176)	(839)
Investment in financial assets at fair value through profit or loss		(16,904)	-
Proceeds on disposals of financial assets at fair value through profit or loss		20,052	-
Deposits and prepayments for property, plant and equipment		(1,781)	(25,119)
Net cash used in investing activities			

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Financing activities		
Interest paid	(9,177)	(6,545)
Dividend paid	(6,194)	(5,731)
Proceeds from borrowings	272,484	114,731
Repayments of borrowings	(192,722)	(81,000)
Repayment of shareholders	-	(11)
Repayment of notes payable	(60,000)	-
Shares issue expenses	(1,455)	(2,279)
Proceeds from issue of shares under placing	58,203	79,029
Net cash generated from financing activities	61,139	98,194
Net increase/(decrease) in cash and cash equivalents	13,844	(119,676)
Cash and cash equivalents at beginning of the year	249,783	366,894
Effect of foreign exchange rate changes	(7,395)	2,565
Cash and cash equivalents at the end of the year	256,232	249,783

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

The Company is incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is at Unit 8A, 8/F., Aubin House, 171-172 Gloucester Road, Wan Chai, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in hog breeding, hog slaughtering and sale of pork products in the People's Republic of China (the "PRC"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as financial currency of most of the subsidiaries, and the functional currency of the Company is Hong Kong dollars ("HK\$"). The consolidated financial statements are presented in thousands of units of RMB ("RMB'000"), unless otherwise stated.

2. REORGANISATION

Pursuant to the pre-listing reorganisation of the Group to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 10 November 2011. The Reorganisation was completed by interspersing the Company, Huisheng Food Holdings Limited, Hongkong Huisheng Meat Food Limited between Hunan Huisheng Meat Products Company Limited ("Hunan Huisheng") (湖南惠生肉業有限公司) and the shareholders of Hunan Huisheng. The Group comprising the Company and its subsidiaries resulting from the reorganisation is regarded as a continuing entity.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of the new and revised standards, amendments and interpretations ("new and revised HKFRSs") (which included all HKFRSs, Hong Kong Accounting Standards ("HKAS") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2016. A summary of the new and revised HKFRSs are set out as below:

HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisition of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 *Investment Entities: Applying the Consolidation Exception*

The amendments to HKFRS 10 *Consolidated Financial Statements*, HKFRS 12 *Disclosure of Interests in Other Entities* and HKAS 28 *Investments in Associates and Joint Ventures* clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary, whose main purpose is to provide services and activities that are related to the investment activities of the investment entity parent, applies only to subsidiaries that are not investment entities themselves.

The application of these amendments to HKFRS 10, HKFRS 12 and HKAS 28 has had no material impact on the Group’s consolidated financial statements as the Group is not an investment entity and does not have any subsidiary, associate or joint venture that qualifies as an investment entity.

Amendments to HKFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

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

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

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The application of these amendments to HKFRS 11 has had no material impact on the Group’s consolidated financial statements.

Amendments to HKAS 1 *Disclosure Initiative*

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

The application of these amendments to HKAS 1 has had no material impact on the Group’s consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

Amendments to HKAS 16 and HKAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

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

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation for its plant and equipment. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the application of these amendments to HKAS 16 and HKAS 38 has had no material impact on the Group’s consolidated financial statements.

Amendments to HKAS 27 *Equity Method in Separate Financial Statements*

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

- at cost;
- in accordance with HKFRS 9 *Financial Instruments* (or HKAS 39 for entities that have not yet adopted HKFRS 9); or
- using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.

The accounting option must be applied by category of investments.

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

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 *Consolidated Financial Statements* and to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*.

The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

Annual Improvements to HKFRSs 2012–2014 Cycle

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

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

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

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

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

The application of the said amendments to HKFRSs has had no material effect on the Group’s consolidated financial statements.

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2014–2016 Cycle ⁵
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions ²
HKFRS 4 (Amendments)	Insurance Contracts ²
HKFRS 9	Financial Instruments ²
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
HKAS 7 (Amendments)	Disclosure Initiative ¹
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses ¹

¹ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for annual periods beginning on or after January 2017 or 1 January 2018, as appropriate.

HKFRS 9 *Financial Instruments*

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

Key requirements of HKFRS 9 that are relevant to the Group are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 9 *Financial Instruments* (Continued)

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an economic relationship. Retrospective assessment hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future may impact the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

Amendments to HKFRS 10 and HKAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.
- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor’s financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group’s consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 15 Revenue from Contracts with Customers

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

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

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 16 Leases (Continued)

Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases.

The directors of the Company do not anticipate that the application of HKFRS 16 in the future may have material impact on the Group’s consolidated financial statements.

The Group is in the process of assessing the potential impact of the new and revised HKFRSs upon initial application but is not yet in a position to state whether the new and revised HKFRSs, will have a significant impact on the Group’s financial performance and position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA, and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for biological assets and certain financial instruments, which is measured at fair value, as explained in the accounting policies set out below.

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 HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date of the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributable to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction by transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRSs.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's CGUs (or groups of CGUs) that is expected to benefit from the synergies of the combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Separate Financial Statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated statement of profit or loss and other comprehensive income as follows:

(a) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(b) Interest income

Interest income from a financial asset (other than a financial asset at fair value through profit or loss ("FVTPL")) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Company's or the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

Leasing

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. Prepaid lease payments which are to be amortised in the next twelve months or less are classified as current assets. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Foreign currencies

The functional currency of the Company and its subsidiaries outside the PRC is Hong Kong dollars. The functional currency of the PRC subsidiary is RMB. The consolidated financial statements are presented in RMB which is the Group's presentation currency. This is also the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

In preparing the financial statements of each individual group entity, transactions in currencies other than that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the exchange rates prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the reporting period in which they arise except for:

- Exchange difference on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposal of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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 profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

An unconditional government grant related to the processing of ill hogs shall be recognised in profit or loss when, and only when, the government grant becomes receivable.

Other government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognised the related costs for which the grants are intended to compensate as expenses. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from the subsidiary in an independent fund managed by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statement and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost, less accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets, other than construction in progress, less their residual values over their useful lives, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use and depreciates on the same basis as other property assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives, after taking into account of their residual value, on a straight-line basis at the following rates per annum:

Buildings	4.75%
Plant and machinery	9.50%
Motor vehicles	24%
Furniture, fixture and equipment	19%–31.67%

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is computed using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense for the reporting period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense for the reporting period in which the reversal occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Biological assets

Hogs, including breeder hogs and porkers, are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell, with a resultant gain or loss recognised in profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation cost and excluding finance costs and income taxes. The fair value of hogs is determined based on its present location and condition and is determined independently by professional valuer.

The feeding costs and other related costs including utilities cost and consumables incurred for raising of hogs are capitalised.

Prepaid lease payments

Prepaid lease payments represent the purchase costs of land use rights and are amortised on a straight-line basis over the reporting period of land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses.

Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) 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 FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at FVTPL, available-for-sale ("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 market-place. The accounting policies adopted in respect of each category of financial assets are set out below.

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Loans and receivables

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

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or 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 future; 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 profitmaking; 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 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 HKAS 39 Financial Instruments: Recognition and Measurement 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 "fair value changes on financial assets at fair value through profit or loss" in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 6(c) to the consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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 affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contracts, such as default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition of financial assets

The Group derecognises a financial asset 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 party. 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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity 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 Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Financial liabilities (including trade payables, accruals and other payables, amount due to a shareholder, amounts due to subsidiaries, borrowings, loan from government and notes payable) are subsequently measured at amortised cost using the effective interest method.

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

Related parties transactions

A party is considered to be related to the Group if:

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.
- (b) 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 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 parent of the Group.

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.

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Group and a related party, regardless of whether a price is charged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Contingent liabilities and contingent assets

Contingent liabilities are possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. These liabilities can also be present obligation arising from past events that are not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the consolidated financial statements. When changes in the probability of outflows occur so that outflows are probable, they will then be recognised as a provision.

Contingent asset are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when the inflows of economic benefits are probable. When inflows are virtually certain, assets are recognised.

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 steering committee that makes strategic decisions.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Impairment of property, plant and equipment

The Group reviews its property, plant and equipment for indications of impairment at each reporting period. In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(b) Impairment of trade and other receivables

The Group estimates impairment losses for bad and doubtful debts resulting from inability of the customers to make the required payments. The estimate is based on the ageing of the trade receivable balance, customer credit-worthiness, and historical write-off experience. If the financial conditions of the customers were to deteriorate, actual write-offs would be higher than estimated.

(c) Depreciation and amortisation

Items of property, plant and equipment are depreciated and amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods are adjusted if there are significant changes from previous estimates.

(d) Fair values of biological assets

The biological assets are valued at fair value less costs to sell. The fair value is determined based on either the market-determined prices as at the end of the reporting periods adjusted with reference to the species, age, growing condition and costs incurred to reflect differences in characteristic and/or stages of growth of biological assets. Any change in the estimates may affect the fair value of biological assets significantly.

The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of biological assets. Details of the assumptions used are disclosed in note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

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

(e) Net realisable value of inventories

Valuation of inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for raw materials and finished goods 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 down of inventories.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables (including bank balances and cash)		
– Trade receivables	42,679	183,847
– Other receivables	17,268	17,016
– Bank balances and cash	256,232	249,783
	316,179	450,646
Financial assets at FVTPL	25,855	–
Available-for-sale investment	1,500	1,500
	343,534	452,146
Financial liabilities		
Amortised cost		
– Trade payables	11,043	140,107
– Accruals and other payables	24,698	20,852
– Amount due to a shareholder	–	1,992
– Borrowings	156,493	76,731
– Loan from government	–	476
– Notes payable	–	59,816
	192,234	299,974



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management

The directors of the Group monitor and manage the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk, business risk and liquidity risk.

The Group's major financial instruments include trade receivables, bank balance and cash, amount due from a related party, available-for sale investment, financial assets at FVTPL, trade payables, accruals and other payables, amount due to a shareholder, borrowings, loan from government and notes payable. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management monitors and manages these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

As most of the Group's monetary assets and liabilities are denominated in RMB and the Group conducts its business transactions principally in RMB, the currency risk of the Group is not significant and the Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

In the opinion of the directors of the Company, since the currency risk is minimal, no sensitivity analysis is presented.

Interest rate risk

The Group does not have material exposure to interest rate risk, as the Group has no financial assets and liabilities of material amounts with floating interest rates except for deposits held in the banks. Cash at bank earns interest at floating rates based on the daily bank deposits rates during the year. Any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to the Group.

The Group monitors the interest rate exposure on a continuous basis and adjusts the portfolio of bank saving balances and borrowings where necessary.

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities during the reporting period. The management manages this exposure by maintaining a portfolio of investment with different risks.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the end of reporting period.

If market prices of equity investments have been 5% (2015: nil) higher/lower, profit after tax for the year ended 31 December 2016 would decrease/increase by approximately RMB476,000 (2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management (Continued)

Credit risk

It is the risk that a counterparty is unable to pay amount in full when due. It arises primarily from the Group's trade receivables. The Group limits its exposure to credit risk by rigorously selecting counterparties. The Group mitigates its exposure to risk relating to trade receivables by dealing with diversified customers with sound financial standing. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all receivables balances are monitored on an ongoing basis and overdue balances are followed up by senior management. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables, if any, estimated by the management based on prior experience and the current economic environment. The Group reviews the recoverable amount of each individual debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors believe that the credit risk is significantly reduced.

Trade receivables consist of a large number of customers, spread across diverse customer base and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

Business risk

The Group is exposed to financial risks arising from changes in prices of hogs and the change in cost and supply of feed ingredients, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and animal diseases. The Group has little or no control over these conditions and factors.

The Group is subject to risks relating to its ability to maintain animal health status.

Livestock health problems could adversely impact production and consumer confidence. The Group monitors the health of its livestock on a regular basis and has procedures in place to reduce potential exposure to infectious diseases. Although policies and procedures have been put into place, there is no guarantee that the Group will not be affected by epidemic diseases.

Save for the procurement of breeder hogs, the Group manages its exposure to fluctuation in the price of the key raw materials used in the operations by maintaining a large number of suppliers so as to limit high concentration in a particular supplier.

Liquidity risk

The Group is exposed to minimal liquidity risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from existing shareholders' funds and internally generated cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of bank balances and cash deemed adequate by management to finance the Group's operations and mitigate the effect of fluctuations in cash flows. Management monitors the utilisation of borrowings on a regular basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management (Continued)

Liquidity risk (Continued)

The following tables detail the Group's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted Average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2016					
Non-derivative financial liabilities					
Trade payables	-	11,043	-	11,043	11,043
Accruals and other payables	-	24,540	-	24,540	24,540
Amount due to a shareholder	-	-	-	-	-
Borrowings	4.68	161,034	-	161,034	156,493
		196,617	-	196,617	192,076

	Weighted Average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2015					
Non-derivative financial liabilities					
Trade payables	-	140,107	-	140,107	140,107
Accruals and other payables	-	20,852	-	20,852	20,852
Amount due to a shareholder	-	1,992	-	1,992	1,992
Borrowings	2.03	76,731	-	76,731	76,731
Loan from government	5.37	500	-	500	476
Notes payable	9.81	60,000	-	60,000	59,816
		300,182	-	300,182	299,974

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value

Fair value hierarchy

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 measurements are observable and the significance of the inputs to the fair value measurements in its entirety.

The table below analyses the fair value of the Group's assets that are measured at fair value on a recurring basis. The different levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of the Group's financial assets are measured at fair value on a recurring basis.

As at 31 December 2016

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL	25,855	–	–	25,855

Type	Fair value hierarchy	Valuation technique and key input	Significant unobservable input
Financial assets			
Listed equity securities in HK	Level 1	Quoted bid prices in an active market	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

7. REVENUE AND OTHER INCOME

An analysis of the Group's revenue for the years ended 31 December 2016 and 2015 as follows:

	2016 RMB'000	2015 RMB'000
Revenue		
Sale of pork products	1,145,444	1,504,308
Others <i>(note)</i>	8,572	10,120
	1,154,016	1,514,428

Note: Others include processed pork products and porkers and slaughtering services.

	2016 RMB'000	2015 RMB'000
Other income		
Interest income on:		
Bank deposits	917	1,009
Amortisation of deferred revenue	25	52
Total interest income	942	1,061
Government grants <i>(note)</i>	2,989	4,018
Gain from selling of non-current biological assets, net	-	672
Sundry income	85	26
	4,016	5,777

Note: Government grants mainly represent incentive subsidies granted by the PRC government authorities in relation to processing of ill hogs and subsidies on interest expenses of collective notes. There are no conditions or limitations attached to these subsidies by the respective PRC government authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

8. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers ("CODMs"), being the executive directors of the Company, in order to allocate resources to segments and to assess their performance. The operation of the Group constitutes one reportable segment, i.e. slaughtering and trading of pork products. This is also the basis upon which the Group is arranged and organised.

The information reported to the CODMs for the purpose of resource allocation and assessment of performance, is with reference to profit before taxation and assets which do not contain the gain/loss arising from changes in fair value less costs to sell of biological assets. In the reports to the CODMs, the biological assets are stated at cost but the biological assets are stated at their fair value less costs to sell under the consolidated financial statements. The differences between the profit before taxation and assets reported to the CODMs and those in the consolidated financial statements are as follows:

	2016 RMB'000	2015 RMB'000
Segment profit before taxation reported to the CODMs	55,744	117,735
Add:		
Gain/(loss) arising from changes in fair value less costs to sell of biological assets <i>(note)</i>	16,259	(363)
Profit before taxation reported in the consolidated financial statements	72,003	117,372

Note: The amounts represent fair values changes in live hogs at the end of the reporting period.

Segment revenue reported represents revenue generated from external customers. There were no inter-segment sales in the reporting period.

	2016 RMB'000	2015 RMB'000
Segment assets reported to the CODMs	1,021,095	917,045
Add:		
Gain/(loss) arising from changes in fair value less costs to sell of biological assets <i>(note)</i>	16,259	(363)
Net assets reported in the consolidated financial statements	1,037,354	916,682

Note: The amounts represent fair values changes in live hogs at the end of the reporting period.

As the Group's segment liabilities are not regularly provided to CODMs for review, the measurement of total liabilities for the respective segment is not presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

8. SEGMENT INFORMATION (Continued)

Geographical information

The Group's revenue from external customers by geographical locations in the PRC during the years ended 31 December 2016 and 2015 is as follows:

	2016 RMB'000	2015 RMB'000
Hunan Province	899,119	1,259,522
Guangdong Province	191,734	148,596
Beijing City	1,394	5,741
Others	61,769	100,569
	1,154,016	1,514,428

The Group's non-current assets are principally attributable to a single geographical region, which is the PRC and accordingly, no further geographical segment information is presented.

The Group's geographical concentration risk is mainly in Hunan Province, which accounted for 78% of the total revenue during the year ended 31 December 2016 (2015: 83%).

Information about major customers

No individual customer contributed over 10% of the total revenue of the Group for the year ended 31 December 2016 (2015: nil).

9. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interests on:		
– Borrowings wholly repayable within five years	8,896	3,005
– Government loan <i>(note)</i>	–	27
– Notes payable <i>(note 31)</i>	465	5,661
	9,361	8,693

Note: The amount represents the imputed interests on interest-free government loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

10. TAXATION

	2016 RMB'000	2015 RMB'000
Current Tax —Hong Kong Profits Tax	2,684	—

Hong Kong

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2016. No provision for Hong Kong profits tax for the year ended 31 December 2015 had been made as the Group did not have any assessable profits subject to Hong Kong profits tax for the year ended 31 December 2015.

PRC

The PRC Enterprise Income Tax (the "PRC EIT") is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

Under the PRC Enterprise Income Tax Law (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of a PRC subsidiary is 25% from 1 January 2008 onwards.

Meat processing of primary produce is on the list of The Range of Processing of Primary Agricultural Produces to Be Given Preferential Enterprise Income Tax Treatment (Trial Implementation) (2008 version) (享受企業所得稅優惠政策的農產品初加工範圍(試行)(2008年版)) promulgated by the Ministry of Finance (財政部) and the State Administration of Taxation (國家稅務總局) on 20 November 2008. Hunan Huisheng meets the required standard for preferential PRC EIT treatment.

According to the prevailing tax rules and regulations, Hunan Huisheng operating in the business of primary processing of agricultural products was exempted from the PRC EIT during the years ended 31 December 2016 and 2015.

The income tax expenses for the year can be reconciled to the profit before taxation per consolidated statements of profit or loss and other comprehensive income as follows:

	2016 RMB'000	2015 RMB'000
Profit before taxation	72,003	117,372
Tax at the applicable income tax rate	16,718	29,784
Tax exemption for subsidiary operating in the PRC	(15,672)	(30,954)
Tax effect of expenses not deductible for tax purpose (note)	363	313
Tax effect of tax loss not recognised	1,275	857
Income tax expenses	2,684	—

Note: The non-deductible expenses mainly consist of entertainment, which are not deductible for tax purpose under the relevant tax jurisdiction.

According to the prevailing tax rules and regulations, the Group is operating in agricultural business, which is exempted from the PRC EIT, and no deferred taxation impact was considered for the reporting periods.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2016 RMB'000	2015 RMB'000
Directors' emoluments <i>(note 12)</i>	1,796	1,273
Other staff costs:		
Salaries and other benefits	22,399	23,364
Retirement schemes contributions	3,885	4,697
Total staff costs	28,080	29,334
Auditors' remuneration	1,000	1,000
Depreciation of property, plant and equipment <i>(note 16)</i>	36,228	26,849
Written-off of property, plant and equipment	18,765	-
Amortisation of prepaid lease payments <i>(note 17)</i>	880	831
Net foreign exchange loss	7,025	-
Loss from selling of non-current biological assets	3,224	-
Cost of inventories recognised as expenses <i>(note)</i>	974,244	1,275,412
Operating lease rental expenses in respect of rented premises	484	279

Note: The amount include the service fee of approximately RMB7,353,000 paid to fattening farms during the year ended 31 December 2016 (2015: RMB6,190,000).

12. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c), and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

	2016 RMB'000	2015 RMB'000
Directors' fees	813	853
Other emoluments:		
Salaries, allowances and benefits in kind	903	369
Discretionary bonus	-	-
Retirement schemes contributions	80	51
	983	420
	1,796	1,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

12. DIRECTORS' EMOLUMENTS (Continued)

Details for the emoluments of each director of the Company during the reporting period are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement schemes contributions RMB'000	Total RMB'000
2016					
Executive directors:					
Mr. Ding Biyan ("Mr. Ding")	154	144	-	16	314
Mr. Yu Jishi (note d)	138	113	-	14	265
Mr. Ding Jingxi (note d)	138	73	-	13	224
Mr. Zhou Shigang (note c)	71	64	-	12	147
Mr. Chan Chi Ching (note a)	-	175	-	9	184
Dr. Liu Ta-pei (note b)	-	167	-	8	175
Ms. Lam Ka Lee (note b)	-	167	-	8	175
Non-executive director:					
Mr. Zhang Zhizhong (note c)	28	-	-	-	28
Independent non-executive directors:					
Mr. Ma Yiu Ho, Peter	128	-	-	-	128
Mr. Deng Jinping	49	-	-	-	49
Mr. Liao Xiujian	49	-	-	-	49
Mr. Wong King Shiu, Daniel (note a)	58	-	-	-	58
	813	903	-	80	1,796

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement schemes contributions RMB'000	Total RMB'000
2015					
Executive directors:					
Mr. Ding	144	139	-	15	298
Mr. Yu Jishi	144	109	-	13	266
Mr. Ding Jingxi	144	66	-	12	222
Mr. Zhou Shigang	144	55	-	11	210
Non-executive director:					
Mr. Zhang Zhizhong	59	-	-	-	59
Independent non-executive directors:					
Mr. Ma Yiu Ho, Peter	120	-	-	-	120
Mr. Deng Jinping	49	-	-	-	49
Mr. Liao Xiujian	49	-	-	-	49
	853	369	-	51	1,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

12. DIRECTORS' EMOLUMENTS (Continued)

Notes:

- (a) Mr. Chan Chi Ching was appointed as the director of the Company and Mr. Wong King Shiu, Daniel was appointed as the independent non-executive director of the Company on 7 June 2016.
- (b) Dr. Liu Ta-pei and Ms. Lam Ka Lee were appointed as the directors of the Company on 16 June 2016.
- (c) Mr. Zhou Shigang was resigned as the director of the Company and Mr. Zhang Zhizhong was resigned as non-executive director of the Company on 16 June 2016.
- (d) Mr. Yu Jishi and Mr. Ding Jingxi were resigned as the directors of the Company on 24 November 2016.

The executive directors' emoluments shown were mainly for their service in connection with the management of the affairs of the Company and the Group.

The non-executive director's emoluments shown was mainly for his services as director of the Company.

The independent non-executive directors' emoluments shown was mainly for their services as directors of the Company.

The remuneration shown above represents remuneration received and receivable from the Group by these directors in their capacity as employees to the Group and/or in their capacity as directors of the Company during the years ended 31 December 2015 and 2016 respectively. None of the directors agreed to waive or waived any emoluments during the year (2015: Nil).

13. EMPLOYEES EMOLUMENTS

The five highest paid individuals during the year included two executive directors (2015: two). Details of whose emoluments are set out above in note 12. The detail of the emoluments of the remaining three (2015: three) highest paid individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other allowances	912	855
Discretionary bonus	-	-
Retirement schemes contributions	42	40
	954	895

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

13. EMPLOYEES EMOLUMENTS (Continued)

The number of non-director highest paid employees whose emoluments fell within the following band is as follows:

	2016	2015
Nil to RMB896,000 (equivalents to HK\$1,000,000)	3	3

The number of senior management (excluding directors) whose emoluments fell within the following band is as follows:

	2016	2015
Nil to RMB 896,000 (equivalents to HK\$1,000,000)	3	3

During the reporting period, no emoluments were paid by the Group to the directors or any of the five highest paid employees or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Final dividends paid of HK\$0.015 per ordinary share (2015: HK\$0.015)	6,194	5,731

During the year ended 31 December 2016, the Board declared and paid HK\$0.015 per share (2015: HK\$0.015 per share) or approximately HK\$7,237,000 (2015: approximately HK\$7,237,000) in aggregate as final dividend for the year ended 31 December 2015.

The Board does not recommend the payment of final dividend for the year ended 31 December 2016 (2015: HK\$0.015 per share).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

15. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Earnings		
Earnings attributable to owners of the Company for the purpose of calculating basic earnings per share	70,701	116,694

	2016 '000	2015 '000 (restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	532,897	453,007

The calculation of basic earnings per share is based on the profit attributable to owners of the Company for the year of approximately RMB70,701,000 (2015: RMB116,694,000) and the weighted average number of 532,897,000 (2015: 453,007,000) ordinary shares in issue during the year ended 31 December 2016.

For the year ended 31 December 2015, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been restated and adjusted with the effect of rights issue which were accrued subsequent to the end of the reporting period.

The dilutive earnings per share is the same as the basic earnings per share as there was no potential dilutive ordinary shares in issue during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
As at 1 January 2015	208,909	148,590	816	4,523	36,784	399,622
Additions	54,525	151	-	1,170	233,903	289,749
Transfer	1,264	5,942	-	3,033	(10,239)	-
As at 31 December 2015 and 1 January 2016	264,698	154,683	816	8,726	260,448	689,371
Additions	-	16	-	66	117,231	117,313
Written off	(27,854)	(7,264)	-	(1,374)	-	(36,492)
Transfer	361,542	12,637	-	1,145	(375,324)	-
As at 31 December 2016	598,386	160,072	816	8,563	2,355	770,192
Accumulated depreciation						
As at 1 January 2015	11,851	8,054	709	1,378	-	21,992
Provided for the year	11,422	14,252	12	1,163	-	26,849
As at 31 December 2015 and 1 January 2016	23,273	22,306	721	2,541	-	48,841
Provided for the year	19,465	15,245	12	1,506	-	36,228
Written off	(10,577)	(5,838)	-	(1,312)	-	(17,727)
As at 31 December 2016	32,161	31,713	733	2,735	-	67,342
Net book values						
As at 31 December 2016	566,225	128,359	83	5,828	2,355	702,850
As at 31 December 2015	241,425	132,377	95	6,185	260,448	640,530

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives, after taking into account of their residual value, on a straight-line basis at the following rates per annum:

Buildings	4.75%
Plant and machinery	9.50%
Motor vehicles	24%
Furniture, fixtures and equipment	19%-31.67%

Details of property, plant and equipment pledged are set out in note 39.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

17. PREPAID LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Cost		
At the beginning of the year	38,493	37,654
Additions	176	839
At the end of the year	38,669	38,493
Accumulated amortisation		
At the beginning of the year	3,293	2,462
Charge for the year	880	831
At the end of the year	4,173	3,293
Net book values	34,496	35,200

Analysed for reporting purposes as:

	2016 RMB'000	2015 RMB'000
Non-current assets	33,610	34,360
Current assets	886	840
	34,496	35,200

The prepaid lease payments are land use rights located in the PRC which are under medium lease.

Details of prepaid lease payments pledged are set out in note 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

18. PRINCIPAL SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2016 are as follows:

Name of subsidiary	Country of incorporation/ registration	Principal place of business and date of incorporation	Paid up capital or registered capital	Percentage of equity interest and voting power attributable to the Company		Principal activities
				Direct %	Indirect %	
Huisheng Food Holdings Limited	British Virgin Islands ("BVI")	Hong Kong, 3 October 2011	Ordinary shares HK\$1	100	-	Investment holding
Quick Choice Holdings Limited	BVI	Hong Kong, 8 June 2016	Ordinary shares US\$1	100	-	Investment holding
Huisheng Enterprise Holdings Limited	BVI	Hong Kong, 19 August 2016	Ordinary shares US\$1	100	-	Investment holding
Fully Everfield Limited	BVI	Hong Kong, 16 December 2016	Ordinary shares US\$1	100	-	Investment holding
Hongkong Huisheng	Hong Kong	Hong Kong, 14 March 2006	Ordinary shares HK\$5,000,000	-	100	Investment holding
Excellence Circle Limited	Hong Kong	Hong Kong, 3 June 2016	Ordinary shares HK\$1	-	100	Inactive
Huisheng Enterprise (Hong Kong) Limited	Hong Kong	Hong Kong, 6 September 2016	Ordinary shares HK\$1	-	100	Inactive
Profitable Management Limited	Hong Kong	Hong Kong, 22 July 2016	Ordinary shares HK\$1	-	100	Provision of administrative services
Hunan Huisheng*	The PRC	The PRC, 18 December 2007	Registered capital RMB136,700,000	-	100	Breeding and slaughtering of hogs and sale of pork products
Linli Huisheng Meat Products Company Limited* ("Linli Huisheng") (臨澧惠生肉業有限公司)	The PRC	The PRC, 19 August 2013	Registered capital RMB12,000,000	-	100	Investment holding
Linli Huisheng Ecological Hog Breeding Company Limited* ("Linli JV") (臨澧惠生生態豬養殖有限公司)	The PRC	The PRC, 17 September 2013	Registered capital RMB16,000,000	-	71.9	Breeding, farming and sale of piglets and porkers and provision of consultancy service in hog breeding and farming
Taoyuan County Huisheng Meat Products Company Limited* ("Taoyuan Huisheng") (桃源縣惠生肉業有限公司)	The PRC	The PRC, 18 September 2014	Registered capital RMB15,000,000	-	100	Breeding, farming and sale of piglets and porkers and provision of consultancy service in hog breeding and farming
Changde City Dingcheng District Huisheng Meat Products Company Limited* (常德市鼎城區惠生肉業有限公司)	The PRC	The PRC, 20 October 2014	Registered capital RMB15,000,000	-	100	Breeding, farming and sale of piglets and porkers and provision of consultancy service in hog breeding and farming

* For identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

18. PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiary that has material non-controlling interests:

Name of subsidiary	Place and date of incorporation	Proportion of ownership interests and voting power held by non-controlling interests		(Loss)/profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	2016	2015	2016	2015
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Linli JV	The PRC, 17 September 2013	28.1	28.1	(1,382)	678	4,173	5,555

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

	2016 RMB'000	2015 RMB'000
Current assets	14,032	8,789
Non-current assets	43,054	38,309
Current liabilities	42,236	27,348
Non-current liabilities	-	-
Total equity	14,850	19,750

	2016 RMB'000	2015 RMB'000
Revenue	18,945	14,135
Cost of sales and expenses	(17,356)	(15,075)
(Loss)/profit for the year	(4,918)	2,410
Other comprehensive income for the year	-	-
Total comprehensive (loss)/income for the year	(4,918)	2,410
Net cash generated from operating activities	12,401	7,207
Net cash used in investing activities	(9,383)	(9,160)
Net cash (used in)/generated from financing activities	(3,000)	2,000
Net cash inflow	5,282	47

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

19. AVAILABLE-FOR-SALE INVESTMENT

	2016 RMB'000	2015 RMB'000
Unlisted equity investment in the PRC, at cost	1,500	1,500

Hunan Huisheng entered into an agreement with Yueyang Jiuding Agriculture Co., Ltd.* (岳陽九鼎農牧有限公司) to acquire 6% of equity interest in Changde Jiuding Agriculture Co., Ltd* (常德九鼎農牧有限公司) ("Changde Jiuding") at an aggregate consideration of RMB1,500,000. Changde Jiuding is principally engaged in the production of feeds. The transaction was completed in April 2013.

On 20 April 2015, the shareholders of Changde Jiuding injected an additional capital of RMB10,000,000 which had immediately diluted Hunan Huisheng equity interest in Changde Jiuding from 6% to 5.8%.

The directors of the Company do not consider that the Group is able to exercise significant influence over Changde Jiuding as the remaining equity interest of 94.2% (2015: 94.2%) is held by 12 shareholders, who also manage the day-to-day operations of Changde Jiuding.

* For identification purpose only.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB'000	2015 RMB'000
Held-for-trading investments:		
Equity securities listed in Hong Kong	25,855	-

Note: At 31 December 2016, the fair value of the listed equity securities, amounting to approximately RMB25,855,000 (2015: Nil), was determined based on the quoted market bid prices available on the Stock Exchange.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

21. BIOLOGICAL ASSETS

The Group is principally engaged in breeding and slaughtering of hogs and sale of pork products in the PRC.

The quantity of hogs owned by the Group as at the end of reporting period is shown below. The Group's hogs are divided into breeder hogs and porkers.

The number of biological assets are summarised as follows:

	2016	2015
Breeder hogs	6,412	6,092
Porkers	60,161	28,404
	66,573	34,496

The Group is exposed to fair value risks arising from changes in price of the hogs. The Group does not anticipate that the price of hogs will significantly decline in the foreseeable future and the directors of the Company are of the view that there is no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the hogs.

The Group is exposed to a number of risks related to biological assets and exposed to the following operation risks:

(a) Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates breeding of hogs. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

(b) Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including but not limited to regular inspections, disease controls, surveys and insurance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

21. BIOLOGICAL ASSETS (Continued)

Movements of the biological assets are as follows:

	Breeder hogs RMB'000	Porkers RMB'000	Total RMB'000
As at 1 January 2015	21,424	14,762	36,186
Increase due to purchases	6,611	18,271	24,882
Increase due to raising (Feeding cost and others)	22,763	68,340	91,103
Transfer	1,834	(1,834)	-
Decrease due to retirement and deaths	(2,327)	(1,166)	(3,493)
Decrease due to sales	(22,612)	(71,051)	(93,663)
Gain/(losses) arising from change in fair value less costs to sell	1,050	(1,413)	(363)
As at 31 December 2015 and 1 January 2016	28,743	25,909	54,652
Increase due to purchases	26,892	63,967	90,859
Increase due to raising (Feeding cost and others)	46,942	84,796	131,738
Transfer	1,593	(1,593)	-
Decrease due to retirement and deaths	(6,059)	(1,238)	(7,297)
Decrease due to sales	(47,774)	(135,054)	(182,828)
Gain/(losses) arising from change in fair value less costs to sell	(15,546)	31,805	16,259
As at 31 December 2016	34,791	68,592	103,383

Analysed for reporting purposes as:

	2016 RMB'000	2015 RMB'000
Non-current portion — breeder hogs	34,791	28,743
Current portion — porkers	68,592	25,909
At the end of the year	103,383	54,652



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

21. BIOLOGICAL ASSETS (Continued)

Principal assumption for valuation of biological assets

The following principal assumptions have been adopted in the valuation of biological assets:

- there will be no major change in the existing political, legal and economic conditions in the PRC;
- 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 Group;
- the interest rates and exchange rates will not differ materially from those presently prevailing;
- the biological assets are properly fed with balance diets such that they are gaining weight in accordance under normal growth rate and are receiving appropriate veterinary care;
- the biological assets are free from any animal diseases, including but not limited to sarcoptic mange, internal parasites, swine influenza such that they are all healthy and are capable to generate valuable outputs in line with normal expectations and subject to normal operating expenses;
- the availability of finance will not be a constraint on the breeding of the breeders hogs;
- the production facilities, systems and the technology utilised by the Group in carrying out its breeding operations do not infringe any relevant regulations and law;
- the Group has obtained or shall have no impediment to obtain all necessary governmental permits and approvals to carry out its breeding operations in the PRC;
- the biological assets are not subject to any liabilities, interest-bearing loans and encumbrances that would impair their fair value as at the relevant valuation date;
- the Group will secure and retain competent management, key personnel, marketing and technical staff to carry out and support its breeding operations; and
- the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the fair value of the biological assets.

The qualification of the Valuer

The Group's biological assets were independently valued by Asset Appraisal Limited (the "Valuer"). The Valuer and its professional valuers in charge of this valuation have appropriate qualifications and relevant experiences in various appraisal assignments involving biological assets and agricultural produce. The professional valuers of the Valuer participated in this valuation include professional member of the Royal Institution of Chartered Surveyors (the "MRICS"), professional member of the Hong Kong Institute of Surveyors (the "MHKIS"), professional member of the China Institute of Real Estate Appraisal (the "CIREA"), charterholder of the Chartered Financial Analyst Institute (the "CFA") and member of the Global Association of Risk Professional (the "FRM") and have appraisal experiences in different kinds of assets such as property assets, industrial assets, biological assets, mining rights and assets, technological assets and financial assets in the PRC, Hong Kong, Singapore and Thailand. They have previously participated in the valuation of biological assets and agricultural produce such as hogs, chickens, sophora alopecuroides crops, sunflower seeds and tapioca chips.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

21. BIOLOGICAL ASSETS (Continued)

Principal assumption for valuation of biological assets (Continued)

The qualification of the Valuer (Continued)

Among the professional institutions mentioned above, the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors are member organisations of the International Valuation Standards Council (the "IVSC") which encourages their respective members to adopt and use the International Valuation Standards (including relevant standards on Biological Asset Valuation) laid down by the IVSC.

Based on the above qualification and various experiences of the Valuer and/or its members in providing biological asset valuation services to various companies listed on the Stock Exchange and other stock exchanges in the United States, which engage in the business of husbandry and agriculture industry, the directors of the Company are of the view that the Valuer is competent to determine the fair value of the Group's biological assets.

Physical count of biological assets

The Group currently has self-operating hog farm on which various curtain-barns are erected. Breeder hogs, porker and piglets of similar age or in the same stage of life cycle are moved into a curtain-barn. For administration purposes, the housekeeper of the hog farm would keep proper warehouse records on the number of hogs or piglets moved into or out of the curtain-barns from time to time throughout the breeding period. To facilitate the breeding process, a group of hogs or piglets within a curtain-barn are sub-divided into certain number of sub-groups of more or less the same size and each of these sub-groups are separated from each other by means of physical barriers. The deposition of hogs or piglets in this manner would also facilitate the physical counting on the number of hogs or piglets with the curtain-barn.

The Valuer has conducted inspection of the farms to understand, among others, the species of pure breed hogs, cross breeding program being undertaken, parameters in selection and culling of breeder hogs and porkers, caring and feeding programs for breeding and fattening hogs and facilities in the farms. To ascertain the quantity of hogs, the Valuer has checked the inventory records compiled by the breeding department and finance department by physical count of selected sample groups of breeder hogs and porkers. Sample groups (with sample size not less than 25% of total quantity) of breeder hogs and porkers in different stages of life cycle have been selected and the following steps have been taken for undertaking physical counting of the selected samples by the Valuer:

- To obtain the warehouse records reflecting the quantities of hogs and piglets as at the reporting date;
- To perform physical counting of hogs and piglets within the curtain-barns as at the reporting date;
- To obtain the warehouse records in relation to the reduction and addition on the number of hogs and piglets of the curtain-barns during the year; and
- To compare and reconcile the results with the stocktaking records prepared by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

21. BIOLOGICAL ASSETS (Continued)

Principal assumption for valuation of biological assets (Continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2016

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Breeder hogs	–	34,791	–	34,791
Porkers	–	68,592	–	68,592
Total biological assets	–	103,383	–	103,383

As at 31 December 2015

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Breeder hogs	–	28,743	–	28,743
Porkers	–	25,909	–	25,909
Total biological assets	–	54,652	–	54,652

There were no transfer between Level 1, 2 and 3 in both years. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

21. BIOLOGICAL ASSETS (Continued)

Principal assumption for valuation of biological assets (Continued)

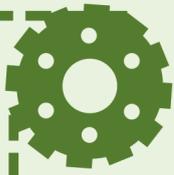
Fair value hierarchy (Continued)

Type	Fair value hierarchy	Valuation technique and key input	Significant observable input
Biological assets			
Breeder hogs and porkers	Level 2	The fair value less costs to sell of the breeder hogs and porkers are determined with reference to the market-determined prices of items with similar age, weight and breeds	<ul style="list-style-type: none"> • Prevailing market price less costs to sell of finishers (RMB/kg): RMB18.00 (2015: RMB17.00). Market prices of finishers represent the prices of porkers in Hunan Province of around 100 kg in weight. The market prices of finishers in Hunan Province were based on statistics released by the China Animal Agriculture Association (中國畜牧業協會). • Prevailing market price less costs to sell of piglets/weaners (RMB/kg): RMB48.00 (2015: RMB32.00). Market prices of piglet/weaners represent the prices of hogs that are less than 60 days old weighing about 20 kg in Hunan Province. The market prices of piglet/weaners in Hunan Province were based on statistics released by the China Animal Agriculture Association (中國畜牧業協會). • Prevailing market price less costs to sell of boars (RMB/head): RMB5,761 (2015:RMB5,761). Market prices of boars represent the market selling prices of male hogs around 6 months old in Hunan Province. The market prices of male hogs in Hunan Province were obtained from independent price inquiry by the Valuer. • Prevailing market price less costs to sell of gilts (RMB/head): RMB2,427 (2015:RMB2,427). Market prices of gilts represent the market selling prices of gilts around 6 months old in Hunan Province. The market prices of gilts in Hunan Province were obtained from independent price inquiry by the Valuer.

Note: If the above observable inputs to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the biological assets would decrease/increase by approximately RMB103,400,000 (2015: decrease/increase by approximately RMB5,500,000).

22. INVENTORIES

	2016 RMB'000	2015 RMB'000
Chilled and frozen pork products	7,712	11,738
Hog feed and other consumables	994	1,581
	8,706	13,319



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

23. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	42,679	183,847

The Group offered credit period on sale of pork products of within 80 days. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Within 30 days	21,084	169,719
31 days to 60 days	15,433	13,880
61 days to 80 days	-	-
Over 81 days	6,162	248
Total	42,679	183,847

The Group's policy for impairment loss on trade receivables is based on an evaluation of collectability and aged analysis of the receivables which requires the use of judgment and estimates. Provisions would apply to the receivables when there are events or changes in circumstances indicate that the balances may not be collectible. The management closely review the trade receivables balances and any overdue balances on an ongoing basis and assessments are made by the Group management on the collectability of overdue balances.

Trade receivables that were past due are not consider impaired. These related to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2016 RMB'000	2015 RMB'000
Within 30 days	6,162	248

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Deposits and prepayments for property, plant and equipment <i>(note (a))</i>	32,247	30,466
Other prepayments, deposits and other receivables <i>(note (b), (c))</i>	35,404	17,858
	67,651	48,324

Analysed for reporting purposes as:

	2016 RMB'000	2015 RMB'000
Non-current assets	32,247	30,466
Current assets	35,404	17,858
	67,651	48,324

Notes:

- (a) The deposits and prepayments for property, plant and equipment as at 31 December 2015 and 2016 were mainly for the purchase of equipment of production facilities in the Group's slaughter house and breeding farms.
- (b) As at 31 December 2015, there were amounts due from shareholders of approximately RMB459,000 included in prepayments, deposits and other receivables of the Group. The amounts due from shareholders were unsecured, interest-free and repayable on demand.
- (c) As at 31 December 2016, there was amounts due from an independent third party approximately RMB2,463,000 (2015: RMB16,748,000) included in prepayments, deposits and other receivables of the Group. The amount due was secured, interest bearing at 5% per annum and repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

25. BANK BALANCES AND CASH

Bank balances and cash comprise:

	2016 RMB'000	2015 RMB'000
Bank balances and cash	256,232	249,783

As at 31 December 2016, the bank balances and cash of the Group denominated in Renminbi amounted to approximately RMB254,030,000 (2015: RMB248,032,000). The RMB is not freely convertible into other currencies, however, under Mainland China's "Foreign Exchange Control Regulations" and "Administration of Settlement, Sale and Payment of Foreign Exchange Regulations", the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

Bank balances and cash carry interest at prevailing market saving rates is 0.35% to 1.00% per annum as at 31 December 2016 (2015: 0.35% to 0.75% per annum).

Non-cash transactions:

During the year ended 31 December 2016, the Group entered into a non-cash investing activity which is not reflected in the consolidated statement of cash flow. During the year, the addition of property, plant and equipment of approximately RMB320,000 (2015: RMB5,350,000) had been paid in previous year and accounted in deposits and prepayment for property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

26. TRADE PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	11,043	140,107

The Group was offered credit period on purchase of goods is within 60 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Within 30 days	11,043	140,107

27. ACCRUALS AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Other payables for property, plant and equipment	11,010	6,426
Accruals and other payables (note (b))	23,765	24,498
	34,775	30,924

Notes:

- (a) All accruals and other payables are expected to be settled within one year.
- (b) As at 31 December 2016, there were amounts due to related parties of approximately RMB3,464,000 (2015: RMB2,175,000) included in accruals and other payables of the Group. The amounts due to related parties were unsecured, interest-free and repayable on demand.

28. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder was unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

29. BORROWINGS

	2016 RMB'000	2015 RMB'000
Secured bank borrowings	42,000	76,731
Other borrowings	114,493	-
	156,493	76,731

Carrying amount repayable:

	2016 RMB'000	2015 RMB'000
On demand or within one year and shown under current liabilities	156,493	76,731

The carrying amount of the Group's borrowings are all originally denominated in RMB and HKD, which are the functional currencies of the Group. The bank borrowings were secured by the Group's assets. Details of pledged assets are set out in note 39.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2016 %	2015 %
Fixed rate borrowings	4.35-14.00	1.58-9.72

30. LOAN FROM GOVERNMENT

	2016 RMB'000	2015 RMB'000
Loan from government (<i>note</i>)	-	476

Note: On 28 December 2011, Hunan Huisheng received from the government an interest-free loan with proceeds of RMB1,000,000 to finance the Listing process. Using the prevailing market interest rates of the People's Bank of China for an equivalent loan of 5.37% per annum as at 31 December 2015, the fair value of the loan is estimated at approximately RMB677,000 on initial recognition. The difference between the gross proceeds and the fair value of the loan is the benefit derived from the interest-free loan and is recognised as deferred revenue (note 32(b)). During the year ended 31 December 2016, the loan from government is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

31. NOTES PAYABLE

On 28 January 2013, Hunan Huisheng, as one of the issuers, has issued collective notes to independent third parties. The principal amount of the collective notes is RMB260 million in aggregate in the denomination of RMB100 each, of which RMB60 million was issued by Hunan Huisheng. During the year ended 31 December 2016, all the notes payable was repaid.

The collective notes carry interest at 5.9% per annum and are to be redeemed on the third anniversary from the date of issue. The principal amount of the collective notes of RMB260 million in aggregate is guaranteed by China Bond Insurance Co., Ltd.* (中債信用增進投資股份有限公司). Hunan Huisheng is not contingently liable for the liabilities of other joint issuers.

For detailed of the collective notes, please refer to the paragraph headed "Notes payable" in the section headed "Financial information" in the Prospectus.

	2016 RMB'000	2015 RMB'000
At the beginning of the year	59,816	57,695
Interest charged at effective interest rate of 10.6% per annum (note 9)	465	5,661
Interest payable	(281)	(3,540)
Repayment	(60,000)	-
At the end of the year	-	59,816

* For identification purpose only.

32. DEFERRED REVENUE

	2016 RMB'000	2015 RMB'000
Arising from government grant (note (a))	378	403
Arising from government loan (note (b))	500	24
	878	427

Analysed for reporting purposes as:

	2016 RMB'000	2015 RMB'000
Non-current liabilities	353	378
Current liabilities	525	49
	878	427

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

32. DEFERRED REVENUE (Continued)

Notes:

- (a) As at the end of each reporting period, the Group has unused government grants in relation to the construction of qualifying assets. The deferred revenue will be recognised upon construction of qualifying assets. The government grant is not repayable.
- (b) The deferred revenue arises as a result of the benefit received from an interest-free government loan received in 2011.

33. SHARE CAPITAL

Details of movements of share capital of the Company are as follows:

	Number of shares	Amount	
		HK\$'000	RMB'000
Authorised:			
Balance as at 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	1,500,000,000	15,000	11,810
Issued and fully paid:			
Balance as at 1 January 2015	402,484,000	4,025	3,168
Issue of shares under placing (note (a))	80,000,000	800	633
Balance as at 31 December 2015 and 1 January 2016	482,484,000	4,825	3,801
Issue of shares under placing (note (b))	96,496,000	965	831
Balance as at 31 December 2016	578,980,000	5,790	4,632

Notes:

- (a) On 26 May 2015 and 29 May 2015, the Company, by way of a top-up placing, placed a total of 80,000,000 placing shares at the placing price of HK\$1.25 per share to at least six independent placees selected and/or procured by or on behalf of the placing agent (the "Placees"). The Placees and their respective ultimate beneficial owners are independent of and not connected with the Company and its connected persons (including Huimin). None of the Placees and their ultimate beneficial owners has become a substantial shareholder (as defined under the Listing Rules) of the Company upon taking up the placing shares. The net proceeds of approximately HK\$97,000,000 were received by the Company. Please refer to the announcement of the Company dated 29 May 2015 for further details.
- (b) On 21 June 2016, the Company, by way of a top-up placing, placed a total of 96,496,000 placing shares to not less than six Placees who and whose ultimate beneficial owners are not connected persons of the Company and are third parties independent of, and not connected with, the Company, any Director(s), chief executive(s) or substantial Shareholder(s) of the Company or any of its subsidiaries or their respective associates at the Placing Price of HK\$0.70 per Placing Share. None of the Placees has become a substantial Shareholder (as defined under the Listing Rules) immediately after completion. The net proceeds of approximately HK\$65,800,000 were received by the Company. Please refer to the announcements of the Company dated 21 June 2016 and 7 July 2016 for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

34. SHARE OPTION SCHEME

The Company adopted a share option scheme on 11 February 2014 (the "Share Option Scheme"), which was effective upon listing. The purpose of the Share Option Scheme is to provision of incentives or rewards to eligible participants (including employees, executives or officers, directors including non-executive directors and independent non-executive directors, advisers, consultants, suppliers and customers of the Company or any of its subsidiaries) for their contribution to the Group. The Share Option Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from the date of which the Share Option Scheme is adopted. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options and subject to the provisions for early termination as set out in the Share Option Scheme. There is no requirement of a minimum period for which an option must be held before it can be exercised. The exercise price of the share options shall be not less than the highest of (i) the Stock Exchange closing price of the shares of the Company on the date of offer of the share options, which must be a date on which the Stock Exchange is open for business of dealing in securities; (ii) the average Stock Exchange closing price of the shares of the Company for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

The total number of securities available for issue under the Share Option Scheme as at the date of this report was 40,000,000 shares which represented approximately 8.3% of the issued share capital of the Company as at the date of this report. No option had been granted or agreed to be granted as at the date of this report.

At no time during the reporting period and as at the date of this report was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

As at the date of this report, none of the share options were exercised, lapsed or cancelled.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Assets		
Non-current asset		
Investment in subsidiaries	-	-
Current assets		
Financial assets at fair value through profit or loss	25,855	-
Prepayments	16	519
Amounts due from subsidiaries	417,936	242,514
Bank balances and cash	1,126	652
	444,933	243,685
Current liabilities		
Accruals and other payables	3,550	2,576
Amounts due to a subsidiary	1,088	1,017
Borrowings	114,493	-
Tax payable	2,809	-
	121,940	3,593
Net current assets	322,993	240,092
Total assets less current liabilities	322,993	240,092
Net assets	322,993	240,092
Equity		
Share capital	4,632	3,801
Reserves	318,361	236,291
Total equity	322,993	240,092

The financial statement was approved and authorised for issue by the board of directors of the Company on 31 March 2017 and are signed on its behalf by:

Chan Chi Ching
Executive Director

Lam Ka Lee
Executive Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

36. RESERVES OF THE COMPANY

	Share premium RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2015	186,766	–	(29,120)	157,646
Profit/(loss) and total comprehensive income/(loss) for the year	–	12,981	(4,722)	8,259
Issue of shares under placing <i>(note 33(a))</i>	78,396	–	–	78,396
Share issue expenses	(2,279)	–	–	(2,279)
Dividends <i>(note 14)</i>	–	–	(5,731)	(5,731)
As at 31 December 2015 and 1 January 2016	262,883	12,981	(39,573)	236,291
Profit and total comprehensive income for the year	–	19,289	13,058	32,347
Issue of shares under placing <i>(note 33(b))</i>	57,372	–	–	57,372
Share issue expenses	(1,455)	–	–	(1,455)
Dividends <i>(note 14)</i>	–	–	(6,194)	(6,194)
As at 31 December 2016	318,800	32,270	(32,709)	318,361

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the years ended 31 December 2015 and 2016.

The capital structure of the Group consists of total borrowings and equity attributable to owners of the Company, comprising borrowings, notes payables, loan from government, amount due to a shareholder, share capital, reserves and retained earnings as disclosed in the consolidated financial statements.

The directors of the Company review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and balance its overall capital structure through the payment of dividends, injection of capital as well as making new borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

37. CAPITAL RISK MANAGEMENT (Continued)

The following is the gearing ratio at the end of each reporting period:

	2016 RMB'000	2015 RMB'000
Total borrowings (note (a))	156,493	139,015
Total equity (note (b))	1,037,354	916,682
Gearing ratio	15.1%	15.2%

Notes:

- (a) Total borrowings represents borrowings, notes payable, loan from government and amount due to a shareholder.
- (b) Total equity includes all share capital and reserves at the end of each reporting period.

38. RETIREMENT BENEFIT PLANS

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK\$1,500 (2015: HK\$:1,500) and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK\$1,500 (2015: HK\$1,500) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries and an associate in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and an associate were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss of approximately RMB3,885,000 (2015: RMB4,697,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016



39. PLEDGE OF ASSETS

At the end of each reporting period, the following assets were pledged to bank to secure the Group's banking facilities:

	2016 RMB'000	2015 RMB'000
Buildings <i>(note 16)</i>	129,521	135,542
Prepaid lease payments <i>(note 17)</i>	33,590	34,325
	163,111	169,867

40. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

At the end of each reporting period, the Group had commitments for future minimum lease payments in respect of farms and office premises under non-cancellable operating leases from selected farmers at an agreed price based on the area of the farm which fall due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	94	224
In the second to fifth years, inclusive	142	228
After five years	383	418
	619	870

Leases are general negotiated for a term from one to thirty years. Rentals are fixed at the date of signing of the lease agreement.

41. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	2,775	2,345



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2016

42. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in notes 24, 27 and 28 to the consolidated financial statements, the Group had entered into transactions with related parties which in the opinion of directors were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

(a) Compensation of key management personnel

The directors of the Company are identified as key management members of the Group and their compensation during the years ended 31 December 2015 and 2016 is set out in note 12.

43. EVENTS AFTER THE END OF THE REPORTING PERIOD

The following significant event took place subsequent to 31 December 2016:

- (a) On 15 December 2016, the Company announced to raise approximately HK\$144.75 million, before expenses, by way of rights issue (the "Rights Issue") of 289,490,000 rights Shares to the qualifying shareholders at a subscription price of HK\$0.50 per rights Share on the basis of one rights Share for every two existing Shares held on the record date (the "Record Date"). The Rights Issue was completed on 2 February 2017. Please refer to the announcements of the Company dated 15 December 2016, 28 December 2016 and 1 February 2017 and the prospectus dated 9 January 2017 for information regarding the Rights Issue.

44. COMPARATIVES

Certain comparative figures have been reclassified to conform with current year's presentation.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 31 March 2017.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements in this annual report and the Prospectus, is set out below:

RESULTS

	For the year ended 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	1,154,016	1,514,428	1,202,419	1,106,423	1,047,620
Cost of sales	(1,044,712)	(1,346,758)	(1,047,945)	(962,181)	(915,391)
Gross profit	109,304	167,670	154,474	144,242	132,229
Other income	4,016	5,777	4,887	3,767	1,737
Gain/(losses) arising from change in fair value less costs to sell of biological assets	16,259	(363)	(2,361)	(926)	(3,327)
Gain arising from change in fair value of financial assets at fair value through profit or loss	18,181	-	-	-	-
Gain on disposal of financial assets at fair value through profit or loss	9,528	-	-	-	-
Selling and distribution expenses	(21,366)	(21,424)	(16,549)	(13,767)	(13,490)
Administrative expenses	(54,558)	(25,595)	(26,237)	(21,024)	(17,155)
Finance costs	(9,361)	(8,693)	(10,101)	(10,248)	(5,901)
Profit before taxation	72,003	117,372	104,113	102,044	94,093
Taxation	(2,684)	-	-	-	-
Profit for the year	69,319	117,372	104,113	102,044	94,093
Profit/(loss) for the year attributable to:					
Owners of the Company	70,701	116,694	103,612	102,168	94,093
Non-controlling interests	(1,382)	678	501	(124)	-
	69,319	117,372	104,113	102,044	94,093



FIVE YEARS FINANCIAL SUMMARY (Continued)

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements in this annual report and the Prospectus, is set out below:
(Continued)

ASSETS AND LIABILITIES

	As at 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Total assets	1,243,352	1,227,155	971,251	728,451	495,274
Total liabilities	(205,998)	(310,473)	(245,525)	(262,813)	(192,830)
Total equity	1,037,354	916,682	725,726	465,638	302,444