

Building
Broader
Networks

Annual
Report
2016



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CORPORATE PROFILE



Headquartered in Shenzhen the People's Republic of China ("PRC"), Sino Grandness Food Industry Group Limited 中华食品工业集团有限公司 ("Sino Grandness" or "the Company" and together with its subsidiaries, the "Group") is an integrated manufacturer and distributor of own-branded 鲜绿园® ("Garden Fresh") juices as well as canned fruits and vegetables. Since its establishment in 1997, the Group has rapidly grown to become one of the leading brands for loquat fruit juice in PRC as well as one of the top exporters of canned asparagus, long beans and mushrooms from PRC. The Group's products are distributed within PRC and globally across Europe, North America and Asia, in renowned supermarkets, discount stores and convenience stores including Lidl, Rewe, Carrefour, Walmart, Huelpeden, 7-Eleven, Jusco and Metro.

With stringent quality control and procedures implemented in its manufacturing processes, Sino Grandness' canned products are compliant with international standards, including Hazard Analysis and Critical Control Point ("HACCP") food safety system, British Retail Consortium ("BRC"), International Food Standard ("IFS") and International Organization for Standardization ("ISO") certifications. As such, Sino Grandness is able to export its canned products to customers globally including the European Union, which has enforced import restrictions (commonly known as "Green Barriers") since 2000 on the grounds of environmental and food safety issues.

Sino Grandness' production plants in PRC are strategically located in four provinces, namely Shandong, Shanxi, Sichuan and Hubei – all of which are key agricultural belts. The production bases straddle different climatic regions so that production activities can be carried throughout the year. The Group's newest plant in Hubei Province has commenced mass production of juices in October 2014.

In 2010, the Group successfully launched its own-branded bottled juices Garden Fresh, comprising unique fruits such as loquat and hawthorn to target the huge domestic consumer base in China. In recognition of the Group's R&D and brand building efforts, Garden Fresh juices have been accorded the "Innovative, Outstanding and Nutritious Award" by the PRC Food Industry in 2010 as well as "Top 100 Brand in China" by the joint agency of Global times, Asia Brand Association and China Economic Herald in 2013.

In 2012, the Group successfully launched its own-branded 振鹏达® ("Grandness") canned fruits, comprising peaches, pears, mandarin oranges and mix fruits to target the huge domestic consumer base in PRC. In 2014, the Group further launched its new range of snack food products under its in-house brand 好田园® ("Hao Tian Yuan").

COMPETITIVE STRENGTHS

Established track record and market

Well-established network of distributors and reputable retailers

Experienced and dedicated management team

Possess good technical knowledge

Production plants are strategically located in various provinces in the PRC

Consistently high quality products

OUR PRODUCTS



Beverages



Canned Fruits



Canned Vegetables



HARVESTING A BUMPER YIELD

Our renewed growth surge this year came not by chance, but emerged as the fruition of our tireless efforts to accelerate business growth strategies. From engaging consumers in our media blitz, to creating new, tantalising flavours and honing our distribution links, we will continue laying the groundwork to spur on superior growth in the years to come.



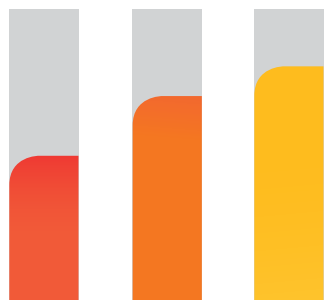


FINANCIAL HIGHLIGHTS

REVENUE

(RMB Million)

2,819.4 3,313.9 3,509.60

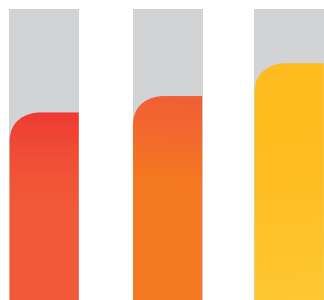


2014 2015 2016

GROSS PROFIT & PROFIT MARGIN

(RMB Million)

1,127.9 1,373.6 1,457.7



2014 2015 2016

ADJUSTED EARNINGS*

(RMB Million)

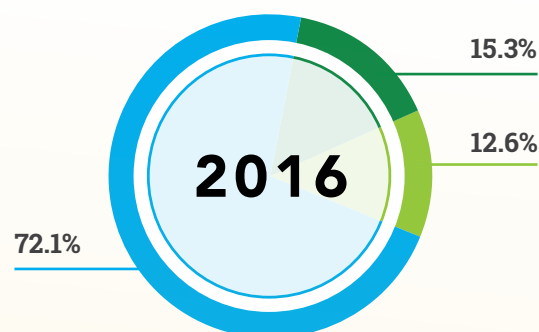
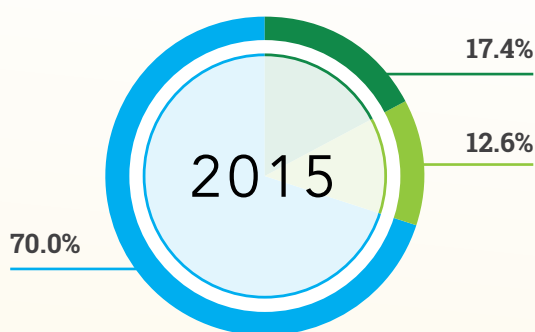
486.2 517.5 444.3



2014 2015 2016

*Adjusted earnings = Net profit attributable to shareholders + changes in fair value of the option derivatives in relation to convertible bonds + non-cash interest expenses of convertible bonds

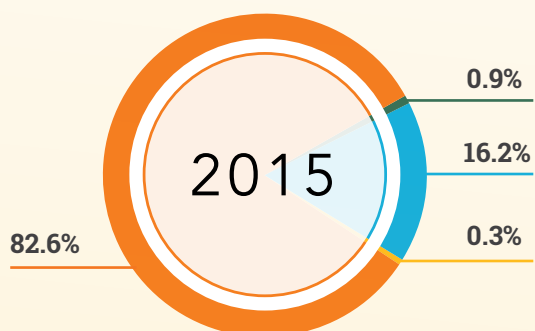
REVENUE BREAKDOWN BY SEGMENTS



● Beverages ● Canned Products - Overseas ● Canned Products - Domestic

REVENUE BREAKDOWN BY GEOGRAPHICAL LOCATIONS

(RMB Million)



● China ● Europe¹ ● North America² ● Others³

1. Include sales to countries such as Germany, France, Spain, the Netherland, the Czech Republic and Russia

2. Relates mainly to sales to Mexico

3. Relates to sales to countries such as Australia and Turkey

HONORARY CHAIRMAN

“The long term growth prospects of food and beverage companies in the PRC market remains promising due to the huge consumer base, rising disposable income and growing health awareness of the people.”



PRAYUDH Mahagitsiri

Honorary Chairman

CHAIRMAN'S MESSAGE

"The commendable results of FY2016 were sweetened after the Group was presented with the prestigious "Asia Brands Top 500" award for the second time. This award is a testament to our overall market performance, future development potential, product quality and profitability."



DEAR SHAREHOLDERS,

On behalf of the Board of Directors, it is my pleasure to present Sino Grandness Food Industry Group Limited's annual report for the financial year ended 31 December 2016 ("FY2016").

In face of muted economic sentiment in the general economy, Sino Grandness made renewed efforts to implement an array of business growth strategies. These culminated in enabling the Group to pull through and synthesise steady and moderate growth for FY2016, solidifying our position as a key player in our field.

LUSH REVENUE AND EARNINGS

The Group attained RMB3,509.6 million in revenue this financial year, achieving steady growth of 5.9% from FY2015's RMB3,313.9 million in revenue. In the same vein, our gross profit rose to RMB1,457.7 million this financial year, a 6.1% increase from FY2015's RMB1,373.6 million. Our gross profit margin (GPM) also rose to 41.5% this financial year, a marginal improvement of 0.1 percentage points over FY2015. Net profit attributable to shareholders in FY2016 surged to RMB577.6 million, a 179.4% boost from RMB206.7 million in FY2015.

The growth stemmed mainly from robust sales in our beverage and domestic canned products segments, following our continued efforts to expand our product range and distribution network in the People's Republic of China ("PRC") market. Higher average selling price of our overseas canned products contributed to the slight increase in our GPM this financial year, though this was offset by the increased cost of raw materials in our

domestic can products and beverage product sections as compared to FY2015.

EVOLVING OUR PORTFOLIO AMIDST A THRIVING MARKET PRESENCE

In FY2016, our marketing strategies included developing sponsorship programmes with major TV stations and satellite channels. In April 2016, Garden Fresh was one of the key sponsors of Sing! China <<中国新歌声>> for the preliminary rounds held in Chengdu, Sichuan Province PRC. This allowed Garden Fresh to leverage on a show that took more than 30 per cent share of the national audience, topped the ratings charts for weeks, and captured billions of views. This TV sponsorship was complemented by our ongoing TV advertisements. In China and Hong Kong, our advertisements continued to run prominent strategic spaces on newspapers, magazines, traffic immigration points, buses and the Mass Transit Railway. This media blitz has strengthened awareness of our brands and enhanced our products' image as quality contemporary food and beverage products with broad public appeal.

We have also not let up in our efforts to cultivate strong ties with new and existing business partners in the industry. Our yoghurt loquat drinks blended with 5 different fruit flavours were a hit at the 2015 Nanjing Trade show and have continued to receive praise from our distributors. Building on this successful entry, we revealed our updated packaging for them at the 2016 Chengdu F&B trade show, featuring a sleeker bottle shape and stylish artwork. We also unveiled a host of exotic flavours that will be joining our product mix – refreshing coconut milk and longan juice

under our Garden Fresh brand. Our strong showing at the Chengdu trade show yielded significant interest and orders from our business partners.

October 2016 saw us reaching an agreement with PM Group Company Limited as another strategic initiative to expand our product portfolio. We secured exclusive marketing rights for P80 Natural Essence in Hong Kong and China in October 2016. P80 Natural Essence is a nutritious longan essence health supplement developed by Chiang Mai University's Faculty of Agro-Industry and endorsed by the Faculties of Medicine, Pharmacy and Food Science after more than 10 years of research and development. P80 Natural Essence contains polyphenols, antioxidants known to improve general wellness. The P80 Natural Essence also contains high levels of Vitamin C. With functional health food booming in China, the Group intends to nurture the product with proper sales and marketing strategies so as to catalyse growth for the Group.

PROLIFERATING OUR ONLINE PRESENCE

Even as our brands achieve a strong overall performance in the marketplace, we will not be resting on our laurels. As consumers' preferences evolve with the times, we will also continue to refine our processes and develop quality products and distribution systems to match.

The year 2016 saw China's e-commerce sales hit a staggering RMB5.16 trillion, a 26.2% boost from 2015. Demand for food products via e-commerce registered an even greater 28.5% growth, surpassing the aggregate growth for all products on China's e-commerce. The number of Internet users who purchased online products also increased rapidly from 35.6% in 2011 to 60.0% in 2015, with the averaging spending per online shopper increasing steadily over the years. This growth of e-commerce in China is expected to persist, with retail e-commerce sales in China expected to grow yearly to an estimated USD839.5 billion in 2021.

Riding on this e-commerce expansion in China, the Group entered into strategic agreements in January 2017 with 深圳市微信食品股份有限公司 ("Wechat Food") and 重庆市礼仪之邦电子商务有限公司 ("LYZB E-Commerce") to distribute a range of the Group's products via their online mobile platforms.

The Wechat Food mobile internet platform will feature our own-branded products including Garden Fresh beverages and Grandness canned food. This collaboration with Wechat Food will allow us to actively connect with customers via mobile internet, by participating in the distribution network of tens of thousands of retail points across hundreds of cities.

LYZB E-Commerce's 集食惠 ("Ji Shi Hui") mobile application and website (www.lyzb.com) will also feature our own-branded products. This strategic move will allow us to leverage on LYZB E-Commerce's extensive presence to build a comprehensive distribution network comprising tens of thousands of retail points covering hundreds of

cities (百城万店) to expand our reach and turnover further in the China market and benefit the growth of our Group's products. Our customers also stand to benefit from a more convenient shopping experience for safe and healthy food items as well as lower prices through aggregating bulk orders.

SOWING SEEDS FOR THE FUTURE

For 2017, the Chinese Government projected national GDP growth to be at around 6.5%, a 0.2 percentage point drop from the 6.7% growth achieved in 2016. Likewise, global economic growth is forecast to remain muted at 3.4%. Despite the subdued Chinese and global economic outlook, the Group remains optimistic about our performance in FY2017 barring any unforeseen circumstances.

Chinese consumers, as a result of higher disposable income and improved living standards, have shown increasing awareness and demand for health and wellness related products. They have become more concerned about the quality and safety of food consumed. Both sustained growth in consumer spending and heightened health and wellness awareness augur well for Sino Grandness with its strong track record.

The commendable results of FY2016 were sweetened after the Group was presented with the prestigious "Asia Brands Top 500" award for the second time. This award is a testament to our overall market performance, future development potential, product quality and profitability. Despite this strong showing, we will not be resting on our laurels, and will continue tilling the fields in hope of a bountiful harvest in FY2017. We will continue to seek strategic advertising and promotional avenues to continue elevating our brands. We will continue working closely with our digital platform partners to further develop and solidify our online presence. Research and development efforts will continue to cultivate new flavours and evolve existing products. The Group will also continue to expand its distribution network for own-branded products beyond China's mainland market in order to capture a broader customer base and develop its brands in overseas markets.

ACKNOWLEDGEMENTS

On behalf of the Board, I'd like to thank our stakeholders and shareholders whose continued trust and commitment have enabled the Group to grow throughout the years. I'd also like to express my appreciation towards our customers and business partners for their support. The Group is constantly striving to deliver quality products through efficient distribution systems. Lastly, I'd like to commend our staff for another year of hard work that has once again borne fruit in the company's growth this year. I look forward to another year of working together with all of you in FY2017 to elevate Sino Grandness to even greater heights.

HUANG YUPENG
Chairman and CEO

主席献词

“继本集团再次入选“亚洲品牌500强”、2016年取得的丰硕业绩尤其值得称赞。这一殊荣是集团整体市场表现、也是未来发展潜力、产品质量及盈利能力的有力证明。”



尊敬的各位股东，

我很荣幸代表中华食品工业集团的董事会，向大家提呈截至2016年12月31日止财政年度（“2016财年”）的年报。

在总体经济倾向温和的趋势下，中华食品工业集团积极努力实施一系列的业务增长策略。通过实施该等策略，本集团在2016财年克服了种种的挑战并整体保持稳定的增长，巩固了集团在领域里关键角色的地位。

收入及盈利

本集团在本财年的收入为人民币35.096亿元，相比上一财年人民币33.139亿元，增长了5.9%。同时，集团本财年的毛利润增至人民币14.577亿元，比上一财年的人民币13.736亿元增长6.1%。集团本财年的毛利率亦提高至41.5%，比上一财年略微提高0.1个百分点。2016财年可支配股东净利增至人民币5.775亿元，比上一财年的人民币2.067亿元，大幅增长179.4%。

此增长主要源于集团自有品牌的饮料及国内罐头产品业务板块的强劲销售，也是集团积极努力在中国拓展我们的产品的市场范围及分销网络的成果。由于集团在2016财年中的海外罐头产品取得较高的平均售价使集团海外罐头板块的毛利率较2015财年略

微增长，与此同时，集团于2016财年中的国内罐头产品及饮料产品板块，由于原材料成本的增加而导致了这两个板块的毛利率略微下滑。

拓展市场的同时加强集团的产品组合2016财年本集团的营销策略包括与一些主要电视台及卫星频道发展赞助计划。2016年4月，集团的鲜绿园®品牌成为成都举行的“中国新歌声”初赛的赞助商。让鲜绿园®能利用这个机会吸引了全国30%观众，连续数周高居收视率排行榜首位，及捕获了数十亿次视图的节目得到更多的曝光率。

电视平台除了赞助以外，也包括不间断的电视广告。在中国及香港，我们的广告持续登载于报纸、杂志、交通换乘点、公共汽车和地铁的显眼位置。此媒体推广已加强了我们的品牌意识及提升了我们作为优质食品和饮料产品的产品形象，赢得了公众广泛关注。

集团也会继续努力发展与行业内新的及现有的商业伙伴的密切合作关系。集团去年推出最新的5种混合枇杷风味酸乳饮料，成为2015年南京糖酒会上的一大亮点，并持续赢得经销商的赞誉。在此成功入市的基础上，集团在2016年成都糖酒会上为该饮品换上新装，新包装的瓶身曲线更流畅、更具时尚艺术感。集团还推出了一系列独特口味的饮料产品，增

加了集团的产品组合，例如，鲜绿园®椰汁和龙眼汁等。集团在成都糖酒会的良好表现让集团从业务伙伴赢得了更大利益和更多订单。

作为集团扩充产品组合的另一战略举措，集团于2016年10月与泰国PM集团签订了一项合作协议并取得P80 龙眼精华提取物（“P80”）于香港及中国两地的独家经销权。经过十多年的研发，P80 成为清迈大学农工学院研制和医学、制药和食品科学学院认可的龙眼营养精华膳食补充剂。P80含有多酚、抗氧化剂和丰富的维生素C，对一般人的总体健康，能够达到改善的效果。随着中国功能性健康食品的蓬勃发展，本集团有信心制定合适的销售和营销策略推广此产品，以促进本集团的增长。

拓展集团的电子商务

尽管集团的品牌在市场上整体表现强劲，但我们不会满足于现状。因客户的喜好随时在变化，集团亦将继续精细化流程，开发高品质的产品及相匹配的分销系统。

2016年，中国的电子商务销售额剧增至人民币5.16万亿元，比2015年增长26.2%。通过电子商务对食品产品的需要实现28.5%的更快增长，超过中国电子商务所有产品的总增长。通过网上购物的互联网用户数目亦快速增长，从2011年的35.6%增至2015年的60.0%，而在线买家的人均支出近年来保持稳定增长。中国的电子商务预期将持续增长，而中国的电子商务零售预期逐年增长，到2021年估计达到8,395亿美元。

凭借中国电子商务的发展，本集团于2017年1月与深圳市微信食品股份有限公司（“微信食品”）及重庆市礼仪之邦电子商务有限公司（“礼仪之邦”）签订战略协议，透过他们的在线移动平台分销本集团的一系列产品。

微信食品的移动网络平台将专注推广集团的鲜绿园®饮料及振鹏达®罐头食品产品。与微信食品的合作使集团能够通过参与百城万店的零售终端分销网络，透过移动网络积极开拓客户群。

礼仪之邦的“集食惠”拥有完善的移动应用程序及网站(www.lyzb.com)，也将专注推广集团自有品牌的产品。这一战略举措将使集团能够利用礼仪之邦在国内的庞大网络，建造一个完善的百城万店分销网络，以进一步扩大在中国其市场范围及营业额，

并利于本集团产品的增长。集团的客户也将能受益于更便捷的安全及健康食品购物体验以及通过汇聚大宗订单而获得更低的价格。

为未来播种

2017年，中国政府预计，国内GDP增长约为6.5%，比2016年的6.7%下降0.2个百分点。同样，全球经济预期保持3.4%的温和增长。尽管中国及全球经济前景疲软，排除任何不可预见的因素，本集团仍然对2017年的业绩保持乐观态度。

由于可支配收入的提高及生活水平的改善，中国消费者对健康保健相关产品的意识和需求日益提高。他们更加关注食品的质量和安全性。鉴于以往取得的彪炳业绩，消费开支的持续增长及健康意识的提高对中华食品工业集团而言都是利好的因素。

继本集团再次入选“亚洲品牌500强”，2016年取得的丰硕业绩尤其值得称赞。这一殊荣是集团整体市场表现、未来发展潜力、产品质量及盈利能力的有力证明。尽管取得骄人业绩，集团不会止步不前，在2017年我们将积极努力，期待付出结硕果。集团将继续拓展战略推广及宣传途径，致力打造我们的品牌。集团将继续与我们的电子平台合作伙伴密切合作，以进一步发展和巩固集团的电子商务。集团也将继续加大研发力度，钻研新的口味及进一步完善现有产品系列。本集团也将继续把我们的分销网络从中国内地市场扩充到香港、澳门及东南亚等其他市场，以涵盖更广泛的客户群并在海外市场发展其品牌。

感谢

我在此代表董事会感谢我们的股东，是他们的一贯信任和付出成就了本集团多年来的业务增长。同时也感谢我们客户和业务伙伴的鼎力支持。本集团将一如既往地透过我们的高效分销系统提供高品质的产品。最后，我要感谢我们的员工在过去一年的辛勤工作，他们的努力使今年本公司的业务又结硕果。我期待2017年继续与大家携手共进，使中华食品工业集团的业务再攀新峰。

黄育鹏

主席兼首席执行官

OUR FOOTPRINTS



The Group's sustained efforts in building brand value have yielded positive results as evidenced by the growing brand awareness and brand equity.





- Australia
- China
- France
- Germany
- Turkey
- The Czech Republic
- Mexico
- Russia
- Spain
- Netherlands



OPERATIONS & FINANCIAL REVIEW

GROUP FINANCIAL HIGHLIGHTS FOR FY2016

Financial Highlights

RMB (million)	FY16	FY15	Change %
Revenue	3,509.6	3,313.9	5.9
Gross profit	1,457.7	1,373.6	6.1
Gross profit margin	41.5%	41.4%	+0.1ppt
Distribution & selling expenses	(760.7)	(570.2)	33.4
Administrative expenses	(167.4)	(111.6)	50.0
Finance costs	(43.9)	(227.0)	(80.7)
Changes in fair value of the option derivatives in relation to convertible bonds	133.3	(91.9)	(245.0)
Net profit attributable to shareholders	577.6	206.7	179.4

For the year under review, the Group's revenue increased by 5.9% to RMB3,509.6 million from RMB3,313.9 million in FY2015. This 5.9% increase was derived from stronger demand in our domestic canned products and beverage product segments, owing mainly to our expanding distribution network in the PRC. The stronger demand in these 2 product segments was partially offset by a decrease in sales in the overseas canned product segment.

Gross profit in FY2016 increased by RMB84.1 million, rising from RMB1,373.6 million in FY2015 to RMB1,457.7 million in FY2016. This 6.1% growth meant gross profit kept at a moderate, measured pace matching our 5.9% growth in sales. Overall gross profit margin (GPM) in FY2016 was 41.5%, a marginal improvement of 0.1 percentage points over FY2015. This marginal improvement was brought about by the higher average selling prices, and hence GPM, of canned products in overseas markets, and partially offset by a marginal decrease in GPM of both beverage and domestic canned product segments mainly due to the higher cost of raw materials in FY2016.

Net profit attributable to shareholders for the Group surged 179.4% to RMB577.6 million compared with RMB206.7 million in FY2015. This spurt of RMB370.9 million was mainly due to higher orders from the beverage and domestic canned products segments, and changes in fair value of the option derivatives in relation to convertible bonds, offset by higher distribution, selling expenses and administrative expenses.

Cash and cash equivalents for the Group increased to RMB297.7 million as at 31 December 2016, compared to RMB143.0 million as at 31 December 2015. This 108.2% increase in cash and cash equivalents was mainly due to loans obtained and net cash generated from operations, partially offset by acquisition of property, plant and equipment, bank loan and straight bond repayment and dividend payment during the year under review.

Earnings per share for FY2016 increased 179.5% to RMB85.8 cents from RMB30.7 cents in FY2015, while net asset value ("NAV") per ordinary share rose to RMB356.7 cents as at 31 December 2016 from RMB268.8 cents as at 31 December 2015.

SEGMENTAL REVIEW

Financial Highlights

Product Segment		12 Months (FY)		Change %
		Jan - Dec 2016 RMB Million	Jan - Dec 2015 RMB Million	
Canned Products	Overseas	535.4	576.2	(7.1)
	Domestic	443.2	418.6	5.9
Beverage		2,531.0	2,319.1	9.1
Total		3,509.6	3,313.9	5.9

Overall group sales for FY2016 registered 5.9% growth, with the domestic canned product and beverage product segments growing 5.9% and 9.1% respectively. This was offset by a 7.1% decrease in demand for our overseas canned products.

While conservative when compared with the double-digit percentage growth of FY2015, the growth of our domestic canned products and beverage segments in FY2016 still attained moderate growth, due mainly to the expansion of our distribution network in the PRC in FY2016. Additional measures supporting this rise include the stepping up of our advertising and promotion efforts and the successful launch of our new products. The overseas canned product segment continued to face challenging headwinds in this financial year, with its sales volume dipping 7.1%. This decrease was mainly due to softer demand in our European markets. This dip in the overseas canned product segment was also a milder decrease compared to its 9.1% drop in FY2015.

GROSS PROFIT

Product Segment		12 Months (FY)		Change %
		Jan - Dec 2016 RMB Million	Jan - Dec 2015 RMB Million	
Canned Products	Overseas	161.4	171.4	(5.8)
	Domestic	176.4	173.8	1.5
Beverage		1,120.0	1,028.4	8.9
Total		1,457.8	1,373.6	6.1

In line with the dip in sales, gross profit for overseas canned products dipped 5.8% to RMB161.4 million in FY2016, as compared to RMB171.4 million in FY2015. Meanwhile, the Group's gross profit for domestic canned products grew to RMB176.4million this financial year compared to RMB173.8 million in FY2015, attaining a more muted growth rate 1.5%. Our beverage segment had the strongest growth, rising 8.1% to RMB1,120.0 million this financial year, compared to RMB1,028.4 million in FY2015.

LOOKING AHEAD

In line with the dip in sales, gross profit for overseas canned products dipped 5.8% to RMB161.4 million in FY2016, as compared to RMB171.4 million in FY2015. Meanwhile, the Group's gross profit for domestic canned products grew to RMB176.4million this financial year compared to RMB173.8 million in FY2015, attaining a more muted growth rate 1.5%. Our beverage segment had the strongest growth, rising 8.1% to RMB1,120.0 million this financial year, compared to RMB1,028.4 million in FY2015.



BOARD OF DIRECTORS



HUANG YUPENG
Chairman and CEO

Mr Huang Yupeng 黄育鹏 is the Chairman, CEO and founder of our Group. He is responsible for overseeing the overall management and operations, formulating the business model and growth strategies. Huang Yupeng received his diploma in Foreign Economic Law from the Shenzhen Teaching Institute in 1988. Immediately prior to the establishment of Shenzhen Grandness, Huang Yupeng was with Shenzhen Foreign Trade and Economic Development Co., Ltd from 1987 to 1997, where he last held the position of Vice General Manager. In 2002, he was elected “Elite Entrepreneurs” and “Elite Manager” of Yongji City, Shanxi Province. In 2005, he was awarded “Honorary Citizen of Yongji City” by Yongji Municipal Government. From April 2004 to March 2008, Huang Yupeng was the People’s Representative of Yongji City and a member of the Standing Committee of People’s Congress in Yongji City. He is currently a member of the Qionglai Municipal Committee of the Chinese People’s Political Consultative Conference. He is elected as Vice President of Shenzhen Municipal Association for Development and Promotion of Medium and Small Enterprises, Vice President of Shenzhen Municipal Information Association, Vice President of Shenzhen-Sichuan Trade and Economic Promotion Association, and Vice President of Qionglai Municipal Federation of Industry and Commerce. He is also a member of Shenzhen Municipal Federation of Entrepreneurs and a standing board member of Sichuan Provincial Association of Canned Industry.



HUANG YUSHAN
Executive Director

Madam Huang Yushan 黄育珊 is our Executive Director and is responsible for all human resource and administrative matters of our Group. She began her career in 1989 with state-owned Shenzhen Yuehai Hotel Enterprise Co., Ltd where she remained till 2000 and last held the position of assistant to the finance manager. In 2000, she joined Airland Hotel in Dameisha, Shenzhen City as their finance manager and was responsible for the management of the finances of the hotel. In 2002, she joined Fuxing Logistics (Shenzhen) Co., Ltd as their finance manager and was responsible for the management of the company’s finances. Huang Yushan joined our Group in 2005 and was the Chief Financial Officer and Vice-President (Human Resource and Administration) for Shenzhen Grandness. In February 2008, with the engagement of our current Chief Financial Officer, Goh Cze Kiang, she focused on the management of the human resource and administration of our Group. Huang Yushan graduated from Shenzhen Radio and TV University in 2003 after reading accountancy there. She is also qualified as an intermediate accountant by the Ministry of Finance (PRC).



ZENG MING
Executive Director

Mr Zeng Ming 曾明 is our Executive Director and was appointed on 19 January 2012. He is currently the deputy director of technology of China National Research Institute of Food & Fermentation Industries and is responsible for project planning and technical developments. In 2001, he joined China National Research Institute of Food & Fermentation Industries as sales director and was responsible for sales and marketing. In addition, he was directly involved in front-line work of numerous technology and research and development projects. He obtained his master degree in fermentation engineering in 1996.



SOH BENG KENG
Lead Independent Director

Mr Soh Beng Keng 苏明庆 is our Lead Independent Director and was appointed on 11 November 2009. He is also the independent director of several other listed companies currently. Mr Soh has more than 30 years of experience in the field of auditing, accounting and financial management. In 1996, Mr Soh became the director of finance of Heeton Management Pte Ltd and subsequently upon listing, he became the executive director of Heeton Holdings Limited. In 2005, he joined Kim Heng Marine & Oilfield Pte Ltd, a Singapore company involved in marine and oil related industries, and served as their financial controller. In 2006, he joined Miclyn Offshore Pte Ltd, a Singapore company involved in the business of owning and chartering of ships, and served as their financial controller. From 2007 to 2009, he was the Chief Financial Officer of China Fashion Holdings Limited, a public listed company in Singapore. Mr Soh is a full member of the Singapore Institute of Directors and a fellow member of the Institute of Singapore Chartered Accountants. He obtained his Bachelor of Commerce (Accountancy) from the Nanyang University in 1979.

Mr Wong Chee Meng, Lawrence 黄志明 is our Independent Director and was appointed to our Board on 24 April 2013. Lawrence Wong is the Managing Director of Equity Law LLC and also heads its Corporate and Securities practice. He is an experienced and established corporate practitioner and was previously a partner of reputable law firms and co-headed the Corporate and Securities Practice of his previous firm.

Lawrence's areas of practice include corporate and securities laws, capital markets, mergers and acquisitions, corporate restructuring, joint ventures, corporate and commercial contracts, regulatory compliance and corporate governance advisory and corporate secretarial work. He has led numerous initial public offerings, reverse take-overs, secondary fund raising and cross-border merger and acquisitions exercises.

Lawrence graduated from the National University of Singapore in 1991 with an honours degree in law on a scholarship from the Public Service Commission of Singapore, and has accumulated an extensive working experience in both the public and the private sectors of the legal profession.

He is an advocate and solicitor in Singapore and a solicitor in Hong Kong SAR. Lawrence currently sits on the board of directors of several public listed companies.

He was recognised as a 'Leading Lawyer' in the 2011, 2013 and 2014 editions of IFLR 1000, recommended in the 2013 and 2014 editions of The Legal 500 Asia Pacific for Corporate and M&A and recognised as the 'Leading Advisor of the Year' by Acquisition International at its 2013 M&A Awards.



**WONG CHEE MENG,
LAWRENCE**

Independent Director

Mr Zhu Jun 朱俊 is our Executive Director and was appointed on 19 January 2012. He is responsible for the corporate investment of our Group. He graduated from Huanghe Science & Technology University of Henan Province in 1993. In 2000, he joined China Green Foodstuff (Shares) Group Co., Ltd as general manager of investment department and was responsible for investment planning and production of the Group. He was subsequently promoted to chief production officer of the Group in 2006. He joined our Group as general manager of investment department in 2009 and was responsible for investment planning of our Group.



ZHU JUN

Executive Director

Madam Liu Ling 刘凌 is our Independent Director and was appointed on 18 March 2013. Madam Liu is currently the deputy director of food engineering research & development as well as director of hi-tech food engineering of China National Research Institute of Food & Fermentation Industries. Madam Liu is responsible for development of technology and product for numerous national projects. Madam Liu has more than 30 years of experience in the field of food and biological engineering. From 1982 to 2000, Madam Liu was professor in food and biological engineering of Zhengzhou University of Light Industry. In 2000, Madam Liu joined China National Research Institute of Food & Fermentation Industries. Madam Liu obtained her doctoral degrees of Agriculture from University of Tokyo Japan in 1999.



LIU LING

Independent Director

Mr. Chalermchai Mahagitsiri is our Non-Executive Director and was appointed on 13 February 2015. He was appointed as director of Thoresen Thai Agencies Public Company Limited in January 2012, where he is currently President and Chief Executive Officer. He currently serves as Chief Executive Officer of PM Group Co., Ltd. which is a holding company of Mr. Prayudh Mahagitsiri family, Chief Executive Officer and Executive Vice Chairman of Mermaid Maritime Plc., and Vice Chairman of Unique Mining Services Plc. He also serves as Director of Quality Coffee Products Co., Ltd. which is partnering with Nestle SA Switzerland to produce Nescafe. He also serves as Vice Chairman of Posco-Thainox Public Co., Ltd. and Thai Film Industries Plc., and Managing Director of Lakewood Country Club Co., Ltd. Mr. Chalermchai Mahagitsiri holds a M.Sc. in Finance from Boston University and a B.Sc. in Finance from Suffolk University, both in USA. Mr. Chalermchai Mahagitsiri completed the Director Accreditation Program (DAP 30/2004) in 2004, the Directors Certification Program (DCP 53/2005) in 2005 by the Thai Institute of Directors Association, and the Capital Market Academy Leadership Program (Class 17) in 2013 by the Capital Market Academy.



**CHALERMCHAI
MAHAGITSIRI**

Non-Executive Director

SENIOR MANAGEMENT



GOH CZE KHIANG

Chief Financial Officer

Mr Goh Cze Kiang 吴芝强 was appointed as our Financial Controller in February 2008 and promoted as Chief Financial Officer on 13 May 2013 and is overall responsible for the financial matters of our Group including overseeing our Group's financial reporting, compliance with postlisting obligation, and company secretarial matters. He has been a Certified Chartered Accountant (FCCA) and a Chartered Accountant (CA) since 1998 and 1999, respectively. He has also been a Certified Financial Planner (CFP) since 2001.

In 2012, he admitted as member of Institute of Singapore Chartered Accountants (CA (Singapore)). Prior to joining, He was the financial controller of China Bearing (Singapore) Ltd, a company listed on the SGX-ST since May 2006. He has more than 28 years of experience in accounting, financial management, consulting and taxation.



LI TUANBO

Chief Technical Officer

Mr Li Tuanbo 李团博 is currently the Chief Technical Officer and is in charge of the production technology and quality control of our Group. He had more than 11 years of experience in production and quality control of food and beverage products. He obtained his degree of Science and Engineering of Food from Xinjiang University of Agriculture in 2005. During 2005 to 2012, Mr Li gained his experience in production, quality control and research and development from various food and beverage companies.



ZHANG GUOMING

Deputy Chief Production
Officer

Mr Zhang Guoming 张国民 is currently the Deputy Chief Production Officer and is in charge of the production for our Group. He had more than 21 years of experience in production of canned products. In 1998, he joined Shanxi Yongji Huaxin Food Co., Ltd., one of our subsidiaries as warehouse and logistic manager. Between 2003 and 2009, he was the production manager and promoted as deputy general manager in 2010. In 2012, he was appointed as general manager and responsible for the entire operation of Shanxi Yongji Huaxin Food Co., Ltd.

CORPORATE INFORMATION

HONORARY CHAIRMAN

Prayudh Mahagitsiri

BOARD OF DIRECTORS

Huang Yupeng (Chairman and CEO)
Huang Yushan (Executive Director)
Zeng Ming (Executive Director)
Zhu Jun (Executive Director)
Chalermchai Mahagitsiri (Non-Executive Director)
Soh Beng Keng (Lead Independent Director)
Liu Ling (Independent Director)
Wong Chee Meng, Lawrence (Independent Director)

AUDIT COMMITTEE

Soh Beng Keng (Chairman)
Liu Ling
Wong Chee Meng, Lawrence

NOMINATING COMMITTEE

Wong Chee Meng, Lawrence (Chairman)
Soh Beng Keng
Liu Ling

REMUNERATION COMMITTEE

Soh Beng Keng (Chairman)
Wong Chee Meng, Lawrence
Liu Ling

JOINT COMPANY SECRETARIES

Chew Kok Liang (LLB) (Hons)
Wong Chuen Shya (Huang Chunxia) (ACIS)

REGISTERED OFFICE

Six Battery Road
#10-01
Singapore 049909

COMPANY REGISTRATION NUMBER

200706801H

SHARE REGISTRAR

Tricor Barbinder Share Registration Services
(A division of Tricor Singapore Pte. Ltd.)
80 Robinson Road
#02-00
Singapore 068898

AUDITORS AND REPORTING AUDITORS

24 Raffles Place
#07-03 Clifford Centre
Singapore 048621

Partner-in-charge: Chang Fook Kay (appointed since
financial year ended 2012)
a member of the Institute of Singapore Chartered
Accountants

PRINCIPAL BANKERS

Bank of China Co., Ltd.
Shenzhen Central District Branch
Xinghe International Garden
North-east Wing Qunlou
Third Fuhua Road
Shenzhen City
The People's Republic of China

DBS Bank (China) Limited
18/F Resource Building
5001 Shennan Dong Road
Shenzhen City 518001
The People's Republic of China





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CORPORATE GOVERNANCE REPORT

The Board of Directors of Sino Grandness Food Industry Group Limited (the “Company”) and together with its subsidiaries (the “Group”) is committed to setting in place corporate governance practices which are in line with the recommendations of the Code of Corporate Governance 2012 (the “Code”) to provide a structure through which protection of the interest of its shareholders, enhancement of shareholders’ value and corporate transparency are met.

This report sets out the Group’s main corporate governance practices which were in place for the financial year ended 31 December 2016 (“FY2016”) or which will be implemented and where appropriate, explanations are provided for deviation from the Code.

BOARD MATTERS

Principle 1: Board’s Conduct of its Affairs

The Board’s primary role is to protect and enhance long-term shareholders’ value and returns. The Board meets quarterly and as warranted by particular circumstances, as deemed appropriate by the members of the Board.

The principal functions of the Board include the following: -

- provides entrepreneurial leadership, sets strategic objectives, and ensures proper conduct of the Company’s business;
- provides the overall strategy of the Group;
- establishes a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholders’ interests and the Company’s assets;
- reviews management performance;
- identifies the key stakeholder groups and recognises that their perceptions affect the Company’s reputation;
- sets the Company’s values and standards (including ethical standards), and ensures that obligations to shareholders and other stakeholders are understood and met; and
- considers sustainability issues as part of its strategic formulation.

All Directors objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company.

To assist the Board in the execution of its responsibilities, the Board is supported by three Board Committees, namely the Nominating Committee, the Remuneration Committee and the Audit Committee, which would make recommendations to the Board. These Board Committees have their own defined terms of references and operating procedures, and play an important role in ensuring good corporate governance in the Company and within the Group.

The Company has taken steps to ensure participation of all Directors when selecting Directors to the three Board Committees so as to maximize their effectiveness. All Board Committees are headed by Independent Directors.

CORPORATE GOVERNANCE REPORT

The Board meets on a regular basis as and when necessary, to address any specific significant matters that may arise. As at the date of this report, the number of Board and Board Committees meetings held and attended by each Board member for FY2016 is set out as follows:

Types of Meetings Names of Directors	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Huang Yupeng	4	4	-	-	-	-	-	-
Huang Yushan	4	3	-	-	-	-	-	-
Soh Beng Keng	4	4	4	4	1	1	1	1
Zhu Jun	4	3	-	-	-	-	-	-
Zeng Ming	4	2	-	-	-	-	-	-
Liu Ling	4	4	4	4	1	1	1	1
Wong Chee Meng, Lawrence	4	4	4	4	1	1	1	1
Chalermchai Mahagitsiri	4	0	-	-	-	-	-	-

The Company's Constitution provides for the Directors to participate in Board and Board Committees meetings by means of telephonic conference or in such manner as the Board may determine to facilitate Board participation.

For incoming Directors who are first-time directors, the Company would arrange to provide training especially on the duties as a director, area such as accounting and legal as well as the law and regulations in Singapore such as Companies Act, corporate governance practices, regulations and guidelines from Singapore Exchange Securities Trading Limited (the "SGX-ST").

The Directors are encouraged to attend seminars at Company's expense which are aimed at providing them with the latest updates in the relevant regulations, accounting standards and corporate governance practices and guidelines from SGX-ST that affect the Company and/or the Directors so as to enable them to better discharge their duties and responsibilities.

The Directors have received relevant training to familiarise themselves with the roles and responsibilities of a director of a public listed company in Singapore. Management would conduct briefings and orientation programmes to familiarise newly appointed Directors with the various businesses and operations of the Group, corporate governance practices, regulations and guidelines from SGX-ST.

Matters Requiring Board Approval

As an added control mechanism, the Company has identified the following areas for which the Board's approval must be sought:-

- Approval of quarterly and full year result announcements for release to the SGX-ST;
- Approval of the annual reports and audited financial statements;
- Convening of shareholders' meetings;
- Approval of corporate strategies;
- Approval of material acquisitions and disposal of assets; and
- Approval of major investment and funding decisions.

CORPORATE GOVERNANCE REPORT

Principle 2: Board Composition and Balance

The current Board of Directors consists of eight members, four of whom are Executive Directors, one of whom is Non-Executive Director and three of whom are Independent Directors. The Directors of the Company are:-

Executive Directors

Huang Yupeng (Chairman and Chief Executive Officer)
Huang Yushan
Zhu Jun
Zeng Ming

Non-Executive Director

Chalermchai Mahagitsiri

Independent Directors

Soh Beng Keng (Lead Independent Director)
Liu Ling
Wong Chee Meng, Lawrence

The Board considers an “Independent Director” as one who has no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director’s independent business judgment with a view to the best interests of the Company.

The independence of each Director is reviewed annually by the Nominating Committee in accordance with the Code’s definition of independence. Each Director is required to complete a ‘Confirmation of Independence’ form to confirm his independence. The said form, which was drawn up based on the definitions and guidelines set forth in Guideline 2.3 in the Code and the Guidebook for Audit Committees in Singapore issued by Audit Committee Guidance Committee (“Guidebook”) in October 2008, requires each Director to assess whether he/she considers himself/herself independent despite not having any of the relationships identified in the Code. The Nominating Committee has reviewed the forms completed by each Director and confirmed that at least one-third of the Board comprises Independent Directors.

In view that the Chairman is not an Independent Director, the Board noted that the Company is required to comply with the requirement for Independent Directors to make up at least half of the Board at the annual general meeting (“AGM”) following the end of financial year commencing on or after 1 May 2016, and is in the midst of making arrangements to change the board composition by the AGM for the financial year ending 31 December 2017.

The Non-Executive Directors including the Independent Directors participate actively during Board meetings and would constructively challenge and help develop proposals on strategy and will review performance of Management in meeting agreed goals and objectives and monitor the reporting of performance.

The Nominating Committee is of the view that the Board comprises Directors who have the appropriate mix of expertise and experience, and collectively possess the necessary core competencies to function effectively and make informed decisions overseeing the Company’s business.

Throughout the years, the Non-Executive Directors including the Independent Directors constructively challenge and assist to develop both the Group’s short-term and long-term business strategies and the implementation by the Management was monitored closely. The Independent Directors also review the performance of Management in meeting agreed goals and objectives and monitor the reporting of performance.

The Non-Executive Directors including the Independent Directors are encouraged to meet without the presence of the Management so as to facilitate a more effective check on Management.

None of the Independent Directors has served on Board beyond nine years from the date of his/her appointment.

CORPORATE GOVERNANCE REPORT

Principle 3: Role of Chairman and Chief Executive Officer (“CEO”)

The Chairman and CEO is Huang Yupeng. As the CEO, he is responsible for the effective management and supervision of daily business operations of the Group. He plays an instrumental role in charting the direction and strategic development of the Group and formulates business strategies, merger and acquisition initiatives and promoting high standards of corporate governance.

As the Chairman, he exercises control over the quality, quantity and timeliness of information flow between Management and the Board. He promotes a culture of openness and debate at the Board and ensures that the Board receives accurate, timely and clear information; ensures Board meetings are held as and when necessary; and sets the Board’s meetings’ agendas. He ensures that effective communication is maintained with the shareholders. The Chairman also encourages constructive relations within the Board and between the Board and Management; facilitates the effective contribution of Non-Executive Directors in particular; encourages constructive relations between Executive Directors and Non-Executive Directors; and promote high standards of corporate governance

Although the roles and responsibilities of the Chairman and CEO are vested in Huang Yupeng, major decisions are made in consultation with the Board, where one-third of which comprises Independent Directors. The Board is of the opinion that the process of decision making by the Board has been independent and has been based on collective decisions without any individual or small group of individuals dominating the Board’s decision making.

In line with Guideline 3.3 of the Code, the Company appointed Soh Beng Keng as the Lead Independent Director of the Company with effect from 11 November 2009. The Lead Independent Director will lead and coordinate the activities of the Independent Directors and serve as a principal liaison on Board issues between the Independent Directors and the Chairman of the Board. The Lead Independent Director is available to Shareholders who have concerns and for which contact through the normal channels of the Chairman, CEO, Executive Directors or Chief Financial Officer (“CFO”) has failed to resolve or for which such contact is inappropriate.

Led by the Lead Independent Director, the Independent Directors are encouraged to meet periodically without the presence of the other Directors. The Lead Independent Director should provide feedback to the Chairman after such meetings.

Principle 4: Board Membership

The Nominating Committee (“NC”) comprises three members, all of whom are Independent Directors. The members of the NC are:

Wong Chee Meng, Lawrence (Chairman)
Soh Beng Keng
Liu Ling

The NC is governed by its written terms of reference. The NC makes recommendation to the Board on all nominations for appointment and re-appointment of Directors to the Board, and the Board Committees, and on relevant matters relating to the review of board succession plans for directors, in particular, the Chairman and for the CEO; the development of a process for evaluation of the performance of the Board, its Board Committees and Directors; and the review of training and professional development programs for the Board. It ascertains the independence of Directors and evaluates the Board’s performance. The NC assesses the independence of Directors, based on the guidelines set out in the Code, the Guidebook and any other salient factors.

Following its annual review, the NC has affirmed the independence of Soh Beng Keng, Wong Chee Meng, Lawrence and Liu Ling. The NC, in recommending the nomination of any Director for a re-election, considers the contribution of the Director, which includes his/her attendance record, overall participation, expertise, strategic vision, business judgment and sense of accountability.

The NC ensures that the Board and its Board Committees members are best suited for their respective appointments and able to discharge their responsibilities as such members of the Board and/or Board Committees. In addition, the selection of Directors requires careful assessment to ensure there is an equitable distribution of responsibilities among the Directors.

CORPORATE GOVERNANCE REPORT

In the nomination and selection process, the NC reviews the composition of the Board by taking into consideration the mix of expertise, skills and attributes of existing Board members, to identify desirable competencies for a particular appointment. In so doing, it strives to source for candidates who possess the skills and experience that will further strengthen the Board, and are able to contribute to the Company in relevant strategic business areas, in line with the growth and development of the Group. There is no alternate Director on the Board.

The NC is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Group, notwithstanding that some of the Directors have multiple listed company board representations, and there is presently no need to implement internal guidelines to address the competing time commitments.

Pursuant to the Company's Constitution, every Director must retire from office at least once every three years by rotation. Directors who retire are eligible to offer themselves for re-election. The CEO, as a Director, is subject to the same retirement by rotation provisions as the other Directors and such provisions will not be subject to any contractual terms that he/she may have entered into with the Company. Each member of the NC shall abstain from voting on any resolutions in respect to his/her re-nomination as a Director.

The NC has reviewed and recommended the re-election of Zeng Ming, Huang Yupeng and Chalermchai Mahagitsiri who are retiring at the forthcoming Annual General Meeting to be held on 25 April 2017 (the "forthcoming AGM"). The Board has accepted the recommendations and the retiring Directors will be offering themselves for re-election.

Where a vacancy arises, the NC will consider each candidate for directorship based on the selection criteria determined after consultation with the Board and after taking into consideration the qualification and experience of such candidate, his/her ability to increase the effectiveness of the Board and to add value to the Group's business in line with its strategic objectives. Thereafter, the NC will recommend the candidate to the Board for approval. Under the Constitution of the Company, a newly-appointed Director shall retire at the AGM following his appointment and he shall be eligible for election.

Key information regarding the Directors are set out below:

Name of Director	Date of First Appointment	Date of Last Re-election	Relationships with directors, the Company or shareholders who holds 10% and above	Present Directorships and Chairmanships in Other Listed Companies and Major Appointments	Past 3 Years Directorships and Chairmanships in Other Listed Companies and Major Appointments
Huang Yupeng	20 April 2007	28 April 2014 (to be re-elected at the forthcoming AGM)	Is a substantial shareholder and brother of Huang Yushan, the Executive Director of the Company	Nil	Nil
Huang Yushan	29 August 2008	25 April 2016	Is a sister of Huang Yupeng, who is the Chairman and CEO and substantial shareholder of the Company	Nil	Nil
Soh Beng Keng	11 November 2009	22 April 2015	–	Listed Companies 1. China Haida Ltd. 2. ISDN Holdings Limited 3. Ziwo Holdings Ltd.	Listed Companies 1. Yamada Green Resources Limited
Zhu Jun	19 January 2012	22 April 2015	–	Nil	Nil
Zeng Ming	19 January 2012	22 April 2015 (to be re-elected at the forthcoming AGM)	–	Nil	Nil
Liu Ling	18 March 2013	25 April 2016	–	Nil	Nil

CORPORATE GOVERNANCE REPORT

Name of Director	Date of First Appointment	Date of Last Re-election	Relationships with directors, the Company or shareholders who holds 10% and above	Present Directorships and Chairmanships in Other Listed Companies and Major Appointments	Past 3 Years Directorships and Chairmanships in Other Listed Companies and Major Appointments
Wong Chee Meng, Lawrence	23 April 2013	25 April 2016	–	<u>Listed Companies</u> 1. China Bearing (Singapore) Ltd. 2. Eindex Corporation Limited	<u>Listed Companies</u> 1. Juken Technology Limited 2. WE Holdings Limited 3. Harry's Holdings Ltd 4. Ziwo Holdings Ltd. 5. Artivision Technologies Ltd.
Chalermchai Mahagitsiri	13 February 2015	22 April 2015 (to be re-elected at the forthcoming AGM)	Is a substantial shareholder of the Company and is the son of the Honorary Chairman of the Company, Prayudh Mahagitsiri	<u>Listed Group</u> 1. Thoresen Thai Agencies Public Company Limited (a company listed in Thailand) 2. Mermaid Maritime Public Co Ltd 3. Unique Mining Services Public Company Limited (a company listed in Thailand) 4. Posco-Thainox Public Company Limited (a company listed in Thailand) 5. Thai Film Industries Public Company (a company listed in Thailand)	

Note:

The profile and relevant information of the members of the Board are set on pages 18 to 19 of the Annual Report. The Directors' interests in shares are as disclosed in page 37 of the Directors Statement.

Principle 5: Board Performance

In line with the principles of good corporate governance, the NC had, without the engagement of an external facilitator, implemented an annual performance evaluation process to assess the effectiveness of the Board as a whole and its Board Committees. Each Director completes an evaluation form to assess the overall effectiveness of the Board as a whole. The members of the respective Board Committees are requested to complete the evaluation forms to assess the effectiveness of the Board Committees.

The appraisal process focused on the evaluation of factors such as the size and composition of the Board, the Board's access to information, Board processes and accountability, communication with Senior Management and Directors' standards of conduct. The purpose of the evaluation process is to increase the overall effectiveness of the Board. The results of the evaluation are used constructively by the NC to identify areas of improvements and recommend to the Board the appropriate action.

CORPORATE GOVERNANCE REPORT

The NC had decided that the Directors will not be evaluated individually. In assessing individual Director's contribution and performance and in considering the re-election of any Director, the NC had considered but not limited to the attendance record at meetings of the Board and Board Committees, the intensity of participation in the proceedings at meetings and quality of contribution made.

Principle 6: Access to Information

To allow Directors have sufficient time to prepare for the meetings, all Board and Board Committees papers are distributed in advance to the Board and Board Committees prior to its meetings. The Management's proposals to the Board for decisions provide background and explanatory information relating to matters to be brought before the Board, and copies of disclosure documents, budgets, forecasts and other relevant documents. This facilitates meaningful, deliberated discussions to focus on questions that the Directors may have. The Directors are given separate and independent access to the Group's senior Management and the Company Secretaries to address any enquiries at all times or requests for additional information, if necessary, in a timely manner.

Draft agendas for Board and Board Committees meetings are circulated in advance to the respective Chairman, in order for them to suggest items for the agenda and/or review the usefulness of the items in the proposed agenda.

The Company Secretaries and/or their representatives attend Board and Board Committees meetings and assist the Chairman in ensuring that proper Board procedures at such meetings are followed so that the Board and Board Committees function effectively. Together with the Management, they assist the Chairman in ensuring that the Company complies with the requirements of the Singapore Companies Act, the Listing Manual of the SGX-ST and other relevant rules and regulations that are applicable to the Company. The appointment and removal of the Company Secretaries will be subject to the approval of the Board.

The Directors may seek independent professional advice in the furtherance of their duties and the costs will be borne by the Company.

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

The Remuneration Committee ("RC") comprises three members, all of whom are Independent Directors. The members of the RC are:

Soh Beng Keng (Chairman)
Wong Chee Meng, Lawrence
Liu Ling

The RC is governed by its written terms of reference. The RC has reviewed the general framework of remuneration for the Directors and key management personnel, and determines specific remuneration packages for the CEO, each Executive Director and CFO. The recommendations of the RC is made in consultation with the CEO and submitted for endorsement by the entire Board.

All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards, and benefits-in-kind shall be covered by the RC. Each member of the RC shall abstain from voting on any resolutions and making any recommendations and/or participating in any deliberations of the RC in respect of his/her remuneration package.

In structuring and reviewing the remuneration packages, the RC seeks to align interests of Directors with those of shareholders and link rewards to corporate and individual performance as well as roles and responsibilities of each Director. The Directors' fee to be paid to Directors are subject to shareholders' approval at the forthcoming AGM on 25 April 2017.

The RC has full authority to engage any external independent professional at the Company's expense to advise on matters relating to remuneration as and when the need arises. The objective is to ensure competitive compensation is in place to build and retain capable and committed Management.

CORPORATE GOVERNANCE REPORT

The RC will review the Company's obligations of the service agreements of the Executive Directors and key management personnel that would arise in the event of termination of these service agreements. This is to ensure that such service agreements contain fair and reasonable termination clauses which are not overly generous. The RC aims to be fair and avoid rewarding poor performance.

Principle 8: Level and Mix of Remuneration

In setting remuneration packages, the Company will take into account the competitiveness of the remuneration packages as compared to the market norms, the Group's performance and risk policies of the Company as well as the contribution and performance of each Director which will be aligned with the interests of shareholders and promote the long-term success of the Company.

On 23 September 2013, the shareholders of the Company approved the adoption of an employee share option scheme known as Sino Grandness Employee Share Option Scheme ("ESOS"). The grants of options are vested over a period of time through a prescribed vesting schedule. The RC is also responsible for administering the ESOS with the objective of rewarding and retaining qualified and experienced personnel and attracting Non-Executive Directors with strong capabilities and high performance standards to work towards growth and long-term success of the Company and better alignment of their interests with the interests of shareholders. The details of the grant of options are disclosed in Directors' Statement on page 39.

Executive Directors do not receive Directors' fees. The remuneration for the Executive Directors comprises a basic salary component and a variable component, namely the annual bonus. The latter is based on the performance of the Group as a whole and their individual contribution and performance.

The Company has renewed the Service Agreement with the Chairman and CEO, Huang Yupeng in FY2014. The Service Agreement was renewable automatically for a further period of 3 years unless terminated by either party by not less than six months' notice in writing. During FY2015, after taking into consideration the performance of the Group and the Chairman and CEO, the RC had engaged HR Business Solutions (S) Pte Ltd as its independent remuneration consultant to review the remuneration package of Huang Yupeng for purposes of aligning his remuneration package with industry peers. The remuneration consultant does not have any relationships with the Company.

The Non-Executive and Independent Directors receive Directors' fees in accordance with their contributions, taking into account factors such as effort and time spent in fulfilment of their duties, responsibilities and the need to pay competitive fees to attract, retain and motivate the Directors. Independent Directors should not be over-compensated to the extent that their independence may be compromised.

The RC may recommend the Company to consider the use of contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results or misconduct resulting in financial loss to the Company.

Principle 9: Disclosure of Remuneration

The Company's Directors and key management personnel receiving remuneration from the Group for FY2016 are as follows:

Remuneration Band	Number of Directors	
	2016	2015
Executive Directors		
\$1,500,000 and above	1	1
\$250,000 to below \$1,500,000	-	-
Below \$250,000	3	3
Total	4	4
Key Management Personnel		
Below \$250,000	5	5
Total	5	5

CORPORATE GOVERNANCE REPORT

A breakdown of each individual Director's and key management personnel's remuneration, in percentage terms showing the level and mix for FY2016, is as follows:

	Fees S\$'000	Salary S\$'000	Bonus S\$'000	Share Options S\$'000	Others S\$'000	Total S\$'000
Directors						
S\$1,500,000 and above						
Huang Yupeng	-	653	1,536	0	-	2,189
Below S\$250,000						
Huang Yushan	-	20	-	0	-	20
Zhu Jun	-	50	-	0	-	50
Soh Beng Keng	55	-	-	0	-	55
Zeng Ming	-	43	-	0	-	43
Liu Ling	20	-	-	0	-	20
Wong Chee Meng, Lawrence	50	-	-	0	-	50
Chalermchai Mahagitsiri	20	-	-	0	-	20
	Fees %	Salary %	Bonus %	Share Options %	Others %	Total %

Key Management Personnel

Below S\$250,000

Goh Cze Khiang	-	92	8	0	-	100
Li Tuanbo	-	100	-	0	-	100
Han Biao	-	100	-	0	-	100
Qiang Xinlu	-	100	-	0	-	100
Zhang Guoming	-	100	-	0	-	100

The Company decided not to disclose information on the remuneration of the top five (5) key management personnel in dollars terms given the competitive business environment and possible negative impact on the Group's business interest.

The aggregate total remuneration paid to the top five key management personnel (who are not Directors or the CEO) for FY2016 is approximately S\$249,683.

None of the Directors (including the CEO) and the top five key management personnel (who are not Directors or the CEO) of the Company has received any termination, retirement, post-employment benefits for FY2016.

Other than the Chairman and CEO, Huang Yupeng, who is the brother of Huang Yushan, an Executive Director, there is no employee of the Group who is an immediate family member of a Director or substantial shareholder whose remuneration exceeds S\$50,000 for FY2016.

The RC has reviewed and approved the remuneration packages of the Executive Directors and key management personnel, having regard to their contributions as well as the financial performance and commercial needs of the Group and has ensured that the Executive Directors and key management personnel are adequately but not excessively remunerated.

Principle 10: Accountability

The Board understands its accountability to the shareholders on the Group's position and performance. In this respect, in the discharge of its duties to the shareholders, the Board, when presenting annual audited financial statements and quarterly results announcements, seeks to provide the shareholders with a detailed analysis, explanation and assessment of the Group's financial position and prospects.

CORPORATE GOVERNANCE REPORT

For interim financial statements, the Board provides a negative assurance confirmation to shareholders, in line with Rule 705(5) of the Listing Manual of SGX-ST. Management currently provides the Board with relevant information on the Group's performance, financial position and prospects on a regular basis. In addition, all Directors and key management personnel of the Company also signed a letter of undertaking pursuant to Rule 720(1) of the SGX-ST Listing Manual.

The Management understands its role to provide all members of the Board with management accounts and such explanation and information in a balanced and informed assessment of the Company's performance, position and prospects.

Principle 11: Internal Controls

The Board acknowledges that it is responsible for the overall internal control framework and fully aware of the need to put in place a system of internal controls within the Group to safeguard shareholders' interests and the Group's assets as well as manage risks. The Board also recognizes that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The external and internal auditors conducted annual review of the effectiveness of the Group's key internal controls, including financial, operational, compliance and information technology controls and risk management. Any material non-compliance in internal controls coupled with recommendation for further improvement are reported to the AC. The AC will also follow-up on the actions taken by the Management on the recommendations from the internal and external auditors. In addition, a copy of the report is also issued to the relevant department for its follow-up action. The timely and proper implementation of all required corrective, preventive or improvement measures are closely monitored.

For FY2016, the Board has received assurance from the Chief Executive Officer and Chief Financial Officer that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and the Group's risk management and internal control systems are sufficiently effective.

Based on the reports submitted by the external and internal auditors, including the reviews by the Management and the various management controls put in place, and letter of assurance from the Chief Executive Officer, Chief Financial Officer and the key management personnel, the Board with the concurrence of the AC is of the opinion that Group's internal controls addressing the financial, operational, compliance and information technology risks, and risk management systems are adequate and effective for the type and volume of business that the Group currently operates.

The Board notes that the system of internal controls established provides reasonable assurance, but not absolute, against unforeseeable and foreseeable risks to the Company, as all internal control systems contain inherent limitations and no system of internal controls could provide absolute assurance against the occurrence of material errors, poor judgment in decision making, human error losses, fraud or other irregularities.

Principle 12: Audit Committee

The Audit Committee ("AC") comprises three members, all of whom are Independent Directors. The members of the AC are:

Soh Beng Keng (Chairman)
Liu Ling
Wong Chee Meng, Lawrence

The members of the AC are appropriately qualified, having the necessary experience in business management, finance or legal services. None of the AC members was a former partner or director of the Company's existing auditing firm within a period of 12 months nor has any financial interest in the auditing firm. The Board is of the view that the AC has sufficient financial management expertise and experience to discharge the AC's functions.

The AC is governed by its terms of reference, which was reviewed and amended, where appropriate, to adopt relevant best practices set out in the Guidebook, and used as a reference to assist the AC in discharging its responsibilities and duties.

CORPORATE GOVERNANCE REPORT

The AC will focus principally on assisting the Board in fulfilling its duties by providing an independent and objective review of the financial process, internal controls and the audit function. The AC will meet at least four times a year to perform, inter alia, the following functions:

(a) Financial Reporting

The AC reviews the quarterly, half-yearly and annual results announcements with Management and external auditors before submission to the Board for approval, focusing in particular on significant financial reporting issues and judgments; changes in accounting policies and practices, major risk areas; significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Listing Manual of the SGX-ST and any other relevant statutory or regulatory requirements.

(b) External Audit

The AC reviews, with the external auditors, the audit plans, the audit report and Management's response and actions to correct any noted deficiencies; to discuss problems and concerns, if any, arising from the review and audits. The AC reviews the independence and qualification of the external auditors annually and recommends to the Board the appointment, re-appointment or removal of the external auditors.

(c) Internal Audit

The AC reviews, with the internal auditors, the internal audit plan, the scope and results of the internal audit including the effectiveness of the internal audit functions and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group and to review and ensure annually the adequacy of the internal audit function and monitor Management's response to their findings to ensure that appropriate follow-up measures are taken.

(d) Internal Controls

The AC reviews and evaluates with internal and external auditors on the adequacy and effectiveness of the Company's system of internal controls, including financial, operational, compliance and information technology controls and risk management. The AC may commission an independent audit on internal controls for its assurance, or where it is not satisfied with the system of internal control.

(e) Interested Person Transactions

The AC regularly reviews if the Group will be entering into any interested person transactions ("IPTs") and if it does, to ensure that the Group complies with the requisite rules under Chapter 9 of the Listing Manual of the SGX-ST.

(f) Whistle-blowing

The AC reviews arrangements by which staff of the Company and of the Group may in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow up action.

The AC has undertaken a review of the scope of services provided by the external auditors, the independence and the objectivity of the external auditors on an annual basis, and is satisfied that all non-audit services provided by the external auditors would not, in the AC's opinion, affect the independence of the external auditors. Foo Kon Tan LLP, the external auditors of the Company has also confirmed that they are Public Accounting Firms registered with Accounting & Corporate Regulatory Authority and provided a confirmation of their independence to the AC.

In July 2010, the Singapore Exchange Limited and Accounting ("SGX") and Accounting and Corporate Regulatory Authority ("ACRA") launched the "Guidance to Audit Committees on Evaluation of Quality of Work performed by External Auditors" which aims to facilitate the AC in evaluating the external auditors. Accordingly, the AC had evaluated the performance of the external auditors based on the key indicators of audit quality set out in the Guidance such as performance, adequacy of resources and experience of their audit engagement partner and auditing team assigned to the Group's audit, the size and complexity of the Group.

CORPORATE GOVERNANCE REPORT

In addition, in October 2015, with the support from SGX and Singapore Institute of Directors, ACRA had introduced the “Audit Quality Indicators (“AQIs”) Disclosure Framework to assist the ACs in evaluating the re-appointment of external auditors based on 8 quality markers that correlate closely with audit quality. Accordingly, the AC has evaluated the external auditors based on the 8 AQIs at engagement and/or firm-level for the financial year ended 31 December 2016..

The Audit Committee has reviewed the key audit matters disclosed in the independent external auditors’ report and is of the view that there is no material inconsistency between the audit procedures adopted by the independent external auditors and Management’s assessment and is satisfied that the key audit matters have been appropriately dealt with.

Accordingly, the AC is satisfied that Rule 712 of the Listing Manual of the SGX-ST is complied with and has recommended to the Board, the nomination of the external auditors for re-appointment at the forthcoming AGM.

The Company has complied with Listing Rule 715 as the Company and its subsidiaries are audited by Foo Kon Tan LLP (the “Group Auditors”) for consolidation purposes. Group Auditors as auditors of the Company is responsible for the performance of the audit of the Group and for issuing an auditors’ report for the Group that is appropriate in the circumstance. The auditing standards do not allow the Group Auditors in its auditors report to refer to a component auditor (or the auditors of the subsidiaries of the Group) unless required by law or regulations.

The Company has paid the following aggregate amount of fees to Foo Kon Tan LLP, the external auditors, for services rendered for FY2016:-

Services	Amount (S\$)
Audit service	317,750
Non-audit fees	
- Tax fee and non-assurance engagement	30,800

The Company has paid S\$30,800 for non-audit services to the external auditor during FY2016, which would not affect their independence.

The AC has direct access to the internal and external auditors and has met with them without the presence of Management for FY2016.

The AC has full access and cooperation of the Management and also full discretion to invite any Director or key management personnel to attend its meetings, and has been given reasonable resources to enable it to discharge its functions.

To-date, no reports have been received from any staff through the whistle-blowing mechanism to indicate possible improprieties in matters of financial reporting, financial control, or any other matters.

In the event that a member of our AC is interested in any matter being considered by our AC, he will abstain from participating in the proceedings in relation to that particular transaction and voting on that particular resolution.

To keep abreast of the changes in accounting standards and issues which have a direct impact on the Group’s financial statements, the AC is updated by the external auditors on the relevant changes in accounting standards and issues when they attend the AC meetings quarterly.

The AC has explicit authority to investigate any matters within its terms of reference. The AC has, within its terms of reference, the authority to obtain independent professional advice at the Company’s expense as and when the need arises.

Principle 13: Internal Audit

The AC has outsourced the performance of the internal audit functions of the Group to Baker Tilly TFW. The internal auditors will report directly to the AC and administratively to the Chairman and CEO of the Company. To ensure the adequacy of the internal audit function, the AC had reviewed and approved the internal audit plan before the internal audit commenced. The AC will assess and ensure that the internal auditors meet or exceed the standards set by recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The internal auditors provide adequate staffing with relevant experience to conduct the internal audits.

CORPORATE GOVERNANCE REPORT

The AC, on an annual basis, will assess the adequacy and effectiveness of the internal audit and the internal auditors' independence, the qualification and experiences of internal audit team assigned and the internal auditor's reports and its relationship with the external auditors.

Principle 14: Shareholder Rights

Principle 15: Communication with Shareholders

Principle 16: Conduct of Shareholder Meetings

In line with the continuous disclosure obligations of the Group, the Company is committed to engage in regular and effective communication with shareholders. It is the Board's policy that shareholders are informed of all major developments that may have an impact on the Group. Information is communicated to shareholders on a timely basis and is made through:

- (i) annual reports that are prepared and issued to all shareholders;
- (ii) quarterly results announcements;
- (iii) media meetings and analyst briefings;
- (iv) press releases; and
- (v) disclosures to the SGX-ST via SGXNET.

The Company does not practice selective disclosure as all material and price-sensitive information is released through SGXNET.

Shareholders are given the opportunity to participate effectively in and vote during the general meetings as well as to express their views and direct questions to the Directors and the Management. Chairmen of the AC, NC, RC and the Board, or members of the respective Board Committees standing-in for them are available to address questions from shareholders.

The Company prepares minutes of general meetings that include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting, and responses from the Board and Management. These minutes are available to shareholders upon their request.

If any shareholder is unable to attend, he/she is allowed to appoint up to two proxies to vote on his/her behalf at the meeting through proxy forms sent in advance. Proxies need not be a shareholder of the Company. The Company's Constitution currently does not allow a member to appoint more than two proxies to attend and vote at the same general meeting.

A Relevant Intermediary¹ may appoint more than 2 proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified). An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

Each item of special business included in the notice of the general meetings will be accompanied by full explanation of the effects of a proposed resolution. Separate resolutions are proposed for substantially separate issues at general meetings.

1 A Relevant Intermediary is:

- a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
- b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or
- c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

CORPORATE GOVERNANCE REPORT

To better understand the views of shareholders and investors, the Company holds analyst briefings for the Shareholders and investors in conjunction with the release of the Group's quarterly and full year results to discuss the Group's performance and developments, establish and maintain regular dialogue sessions with shareholders, to gather views or inputs, and address shareholders' concerns.

To enhance and encourage communication with Shareholders and investors, the Company provides the contact information of its Vice President, Investor Relations ("VPIR") in its press releases. Shareholders and investors can send their enquiries to the Company's VPIR who can be reached by email or telephone.

The Board will put all resolutions to vote by poll and make an announcement of the detailed results showing the number of votes cast for and against each resolution and the respective percentages.

The Company did not institute a dividend policy, however, as set out in the Company's circular dated 12 December 2014, pursuant to the subscription agreement, for as long as the subscribers hold at least 10% of prevailing total issued shares in the capital of the Company from time to time, the Company shall have a dividend policy that, whenever feasible, the Company will declare and pay dividends to the Shareholders in an amount of at least 10% of the net profits of the Company as reflected in the audited financial statements of the Company.

DEALING IN SECURITIES

The Company has complied with Rule 1207(19) of the Listing Manual of the SGX-ST in relation to the best practices on dealings in the securities:-

- (a) The Company had devised and adopted its own internal compliance code to provide guidance to its officers with regards to dealings by the Company and its officers in its securities;
- (b) Officers of the Company did not deal in the Company's securities on short-term considerations; and
- (c) The Company and its officers did not deal in the Company's shares (i) during the periods commencing two weeks before the announcement of the Company's financial results for each of the first three quarters of its financial year and one month before the announcement of the Company's full year financial statements, ending on the date of the announcement of the relevant results, and (ii) if they are in possession of unpublished price-sensitive information of the Group.

In addition, the Directors and key management personnel are expected to observe the insider trading laws at all times even when dealing in securities within permitted trading period.

Material Contracts

Other than that disclosed in the financial statements, the Company or any of its subsidiaries did not enter into any material contracts involving the interest of the CEO, any Director or the controlling shareholder subsisting at the end of the financial year ended 31 December 2016.

Risk Management

Management reviews on an on-going basis, the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks within the Group's policies and strategy. The Group has also considered the various financial risks, details of which are disclosed in the notes to the accompanying audited financial statements on pages 105 to 114.

CORPORATE GOVERNANCE REPORT

Interested Person Transactions

To ensure compliance with the relevant rules under Chapter 9 of the Listing Manual, the Board and AC regularly reviews if the Company will be entering into any IPT and if it does, to ensure that the Company complies with the requisite rules under Chapter 9 in that all the IPTs are conducted at arm's length and on commercial terms and ensuring that it will not be prejudicial to the interest of the company and its minority shareholders.

Other than disclosed under Interested Persons Transactions in the Company's prospectus dated 13 November 2009, the aggregate value of interested person transactions entered into during the financial year ended 31 December 2016, disclosed in accordance with Rule 907 of the SGX-ST Listing Manual, were as follows:-

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under Shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested Persons Transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)
PM Group Company Limited	S\$1.59 million (equivalent to approximately RMB7.85 million)	Nil
Soleado Holdings Pte. Ltd.	S\$1.69 million (equivalent to approximately RMB8.33 million)	Nil

The Company has no shareholders' mandate for interested person transactions.

USE OF NET PROCEEDS

The Board refers to the issuance of 306,065,830 shares by the Company in March 2017 ("Rights Issue"). As disclosed in the Company's Offer Information Statement dated 14 February 2017, the Company intends to utilize the net proceeds from the Rights Issue in the following manner:-

Use of Proceeds	Amount (\$'million)	Percentage Allocation (%)
Capital expenditure for the Group's non-beverage business	38.3	60
Distribution network expansion and general working capital	25.6	40
Total	63.9	100.00

As at 31 March 2017, the Company has yet to utilize the net proceeds from the Rights Issue. The Company will make further announcements on the use of net proceeds from the Rights Issue as and when the funds are materially disbursed.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (the “CSR”) plays an essential role in the long-term success of our business. It is important that we align our interests with that of the communities in which we operate in order to have the support of the local communities and government agencies. We believe that our initiatives and emphasis on returning to the community and looking after the welfare of our staff have translated into goodwill for our Group, contributing to high employee retention rate and staff morale.

Environmental Policy

We Share our customers’ commitment to the environment and we believe in the importance of caring for our planet working with and encouraging others to do the same. As a company that relies on agricultural products, it makes good business sense and as people living in the world, it is simply the right thing to do.

Commitment to Sustainable Development

Our Directors recognized the importance of being a responsible steward of the land we manage. With this in mind, the Company has established a CSR policy which included the review of the following areas of the Group’s activities:

- (a) to review and recommend the Group’s policy with regards to CSR issues;
- (b) to review the Group’s environmental policies and standards;
- (c) to review the social impact of the Group’s business practices in the communities that it operates in;
- (d) to review and recommend policies and practices with regard to key stakeholders (suppliers, customers and employees); and
- (e) to review and recommend policies and practices with regard to regulators.

Core values of the CSR framework

The Company aims to be recognized as an organization that is transparent and ethical in all its dealings as well as making positive contribution to the community in which it operates. It is committed to being a deeply responsible company in the communities with the following core values in all aspects of its work, including the fulfillment of its social responsibility, toward achieving sustainable development:

- Clear direction, strong leadership and open communication;
- Customer focus;
- Equality, fairness and transparency;
- Development of positive working relationships with others; and
- Respect for people

Toward Sustainability Strategies

The Company will seek to achieve corporate and social objectives by focusing on four strategic areas:

Good Relations – adopting an employee relations strategy to enhance management and employee interactions and to promote work-life balance and health among employees.

Community impact – encouraging staff to be involved in projects in support of the wider community.

Fair Trade – providing farmers decent working conditions and fair terms of trade for farmers so as to maintain local sustainability.

Environment – developing environmental management practices that minimize adverse impact on the environment.

The CSR and commitments are integral to the Company’s overall business strategy. As a result, the Company believes it delivers benefits to the Company and its stakeholders, including employees, business partners, customers, suppliers, shareholders, community members and others.

The Company will, as and when necessary, provide updates on the status of its implementation of its CSR policy in the annual report of the Company.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2016

The directors are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2016.

In the opinion of the directors,

- (a) the accompanying financial statements of the Company and of the Group are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2016 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

Directors

The directors of the Company in office at the date of this statement are as follows:

Huang Yupeng (Chairman and Chief Executive Officer)

Huang Yushan (Executive director)

Zhu Jun (Executive director)

Zeng Ming (Executive director)

Soh Beng Keng (Lead independent director)

Wong Chee Meng, Lawrence (Independent director)

Liu Ling (Independent director)

Chalermchai Mahagitsiri (Non-executive director)

Directors' interests

According to the Register of Directors' Shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Cap. 50, particulars of interests of the directors who held office at the end of the financial year in the shares or debentures of the Company and its related corporations are as follows:

	Number of ordinary shares			
	Holdings registered in the name of director		Holdings in which director is deemed to have an interest	
	As at 1.1.2016	As at 31.12.2016 and 21.1.2017 [#]	As at 1.1.2016	As at 31.12.2016 and 21.1.2017 [#]
The Company -				
<u>Sino Grandness Food Industry Group Limited</u>				
Huang Yupeng	239,266,560	239,266,560	-	-
Chalermchai Mahagitsiri	-	-	96,603,700	93,674,700

[#] There are no changes to the above shareholdings as at 21 January 2017.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2016

Directors' interests (cont'd)

By virtue of Section 7 of the Singapore Companies Act, Cap. 50, Huang Yupeng is deemed to have interests in all of the subsidiaries of the Company at the beginning and at the end of the financial year.

Except as disclosed under the "Share options granted" section of this statement, neither the Company nor its subsidiaries was a party to any arrangement of which the object was to enable the directors to acquire benefits through the acquisition of shares in or debentures of the Company or of any other body corporate during and at the end of the financial year.

Share option scheme

At an Extraordinary General Meeting of the Company held on 23 September 2014, shareholders approved the Sino Grandness Employee Share Option Scheme (the "ESOS Scheme"). Under the scheme, the directors and employees of the Group are eligible to participate in the scheme. Controlling shareholders or their associates are also eligible to participate in the ESOS Scheme, provided that they meet the criteria set out below:

- (a) written justification has been provided to shareholders for their participation at the introduction of the ESOS Scheme or prior to the first grant of options to them and each such participation has been specifically approved by independent shareholders in separate resolutions in a general meeting for such controlling shareholders or their associate;
- (b) the actual number and terms of any options to be granted to them have been specifically approved by independent shareholders in a general meeting in separate resolutions for each such controlling shareholders in a general meeting in separate resolutions for each such controlling shareholder or their associates;
- (c) all conditions for their participation in the scheme as may be required by the regulation of the SGX-ST from time to time are satisfied;
- (d) the aggregate of number of shares comprised in options granted to the controlling shareholders and their associates shall not exceed 25% of the total number of shares which may be granted under the ESOS Scheme; and
- (e) the aggregate of number of shares comprised in options granted to the controlling shareholders or their associates shall not exceed 10% of the total number of shares which may be granted under the ESOS Scheme.

The total number of shares over which options may be granted shall not exceed 15% of the issued share capital (excluding treasury shares and subsidiary holdings) of the Company on the date immediately preceding the date of grant.

The scheme is administered by a Remuneration Committee comprising Soh Beng Keng (Chairman), Wong Chee Meng, Lawrence and Liu Ling, and duly authorised and appointed by the Board of Directors of the Company.

Share options granted

On 14 November 2013, the Company granted options to subscribe 16,710,000 ordinary shares of the Company at exercise price of SGD 0.60 per share ("2013 Options"). The options are exercisable any time after the second anniversary of the date of grant over 10 years. The total fair value of the 2013 Options granted was estimated to be SGD 6,952,937 (approximately RMB 32.3 million) using the Binomial Option Pricing Model.

During the financial year, the Company has:

- (1) renounced 8,810,000 options from the 2013 Options granted to one of its director, Huang Yushan.
- (2) granted options to subscribe 12,500,000 ordinary shares of the Company at exercise price of SGD 0.49 per share to its directors, employees and its subsidiaries' employees. The options are exercisable any time after the second anniversary of the date of grant up to 10th anniversary thereon; and
- (3) granted one of its directors, Huang Yushan, aggregate options of 2,013,750 ordinary shares at exercise price of SGD 0.49, exercisable any time after the second anniversary of the date of grant up to 10th anniversary thereon.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2016

Share options granted (cont'd)

The following table summarises information about outstanding directors' share options at the end of the reporting year:

	No. of unissued ordinary shares of the Company under option					Aggregate options outstanding as at 31.12.2016
	Options granted during the financial year ended 31.12.2016	Aggregate options granted since commencement of ESOS Scheme to 31.12.2016	Aggregate options exercised since commencement of ESOS Scheme to 31.12.2016	Aggregate options renounced since commencement of ESOS Scheme to 31.12.2016	Aggregate options forfeited since commencement of ESOS Scheme to 31.12.2016	
<u>Name of directors</u>						
Zhu Jun	800,000	3,100,000	-	(800,000)	-	2,300,000
Zeng Ming	800,000	2,400,000	-	(550,000)	-	1,850,000
Soh Beng Keng	200,000	800,000	-	(200,000)	-	600,000
Wong Chee Meng, Lawrence	200,000	600,000	-	(100,000)	-	500,000
Liu Ling	200,000	600,000	-	(100,000)	-	500,000
Other employees (Other than directors)	10,300,000	29,800,000	-	(5,400,000)	(2,650,000)	21,750,000
	12,500,000	37,300,000	-	(7,150,000)	(2,650,000)	27,500,000
<u>Name of directors and associate of a controlling shareholder of the Company</u>						
Huang Yushan ¹	2,013,750	12,113,750	-	(8,810,000)	-	3,303,750
	14,513,750	49,413,750	-	(15,960,000)	(2,650,000)	30,803,750

The persons to whom the options have been issued have no right to participate by virtue of the options in any share issue of any other company.

No options to take up unissued shares of the subsidiaries have been granted during the financial year.

No shares were issued during the financial year to which this report relates by virtue of the exercise of the options to take up unissued shares of the Company.

Audit committee

The Audit Committee at the end of the financial year comprises the following members:

Soh Beng Keng (Chairman)
Wong Chee Meng, Lawrence
Liu Ling

All members of the Audit Committee are non-executive directors.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2016

Audit committee (cont'd)

The Audit Committee performs the functions in accordance with Section 201B(5) of the Singapore Companies Act, Cap. 50, the SGX Listing Manual and the Code of Corporate Governance. In performing those functions, the committee reviewed the following:

- (i) overall scope of both the internal and external audits and the assistance given by the Company's officers to the auditors. It met with the Company's internal and external auditors to discuss the results of their respective examinations and their evaluation of the Company's system of internal accounting controls;
- (ii) the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit;
- (iii) the quarterly financial information and the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2016 as well as the independent auditor's report thereon;
- (iv) effectiveness of the Company's material internal controls, including financial, operational, information technology and compliance controls and risk management via reviews carried out by the internal auditors;
- (v) met with the external auditor, other committees and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the Audit Committee;
- (vi) reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
- (vii) reviewed the cost effectiveness and the independence and objectivity of the external auditor;
- (viii) reviewed the nature and extent of non-audit services provided by the external auditor;
- (ix) recommended to the Board of Directors the external auditor to be nominated, approved the compensation of the external auditor and reviewed the scope and results of the audit;
- (x) reported actions and minutes of the Audit Committee to the Board of Directors with such recommendations as the Audit Committee considered appropriate; and
- (xi) interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditor and has recommended to the Board of Directors that the auditor, Foo Kon Tan LLP, be nominated for re-appointment as auditor at the forthcoming Annual General Meeting of the Company.

Full details regarding the Audit Committee are provided in the Report on Corporate Governance.

In appointing our auditors for the Company and its subsidiaries, the directors have complied with Rules 712 and 715 of the SGX Listing Manual.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2016

Independent auditor

The independent auditor, Foo Kon Tan LLP, Public Accountants and Chartered Accountants, has expressed its willingness to accept re-appointment.

On behalf of the Directors

HUANG YUPENG

ZENG MING

31 March 2017

INDEPENDENT AUDITOR'S REPORT

To the Members of Sino Grandness Food Industry Group Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Sino Grandness Food Industry Group Limited ("the Company") and its subsidiaries ("the Group"), which comprise the statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the financial positions of the Group and the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter Revenue recognition

Risk

The Group derives revenues from sales of canned vegetables and fruits products and snack food and fruits and vegetable beverages to customers including sales of Garden Fresh products through its distributor channels in the People's Republic of China ("PRC").

Under SSA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, there is a presumption of fraud risk with regards to revenue recognition. We applied professional scepticism in this regard, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence. We have identified revenue, in particular, the accuracy and timing of revenue recognition to be a Key Audit Matter.

Please refer to Notes 3 and 21 to the accompanying financial statements. We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements.

Our Responses and Work Performed

Our procedures are designed to challenge the accuracy and timing of revenue recognition. These procedures included, amongst others:

- we walkthrough the revenue process and tested the design and operating effectiveness of the control procedures over revenue;
- we performed test of details on selected revenue transactions against underlying documentation including shipping documents, sales invoices, customer acknowledgement and receipts;

INDEPENDENT AUDITOR'S REPORT

To the Members of Sino Grandness Food Industry Group Limited

Key Audit Matter (cont'd) Revenue recognition (cont'd)

Our Responses and Work Performed (cont'd)

- we tested the completeness of the revenue recorded in the financial statements by performing detailed cut-off procedures on sales;
- we obtained the Group's policies, procedures and controls over the selection and renewal of distributors and rebates and incentives paid to distributors. We sought to identify and tested the relationship of revenue and its associated rebates, promotion and incentive expense transactions with distributors against underlying documentation and via reasonableness testing;
- we performed visits to selected distributors to confirm our understanding of the distributorship terms, ascertained the existence of any related party transactions, amount and timing of revenue recognition;
- we performed visits to a major subcontractor for beverage production to confirm our understanding of the production order and distribution flow process;
- we circularised confirmations on a sample basis directly to customers;
- we independently obtained the 2015 State Administration of Industry and Commerce ("SAIC") financial filings of certain subsidiaries in the PRC. We then compared it with the local audited financial statements and the 2015 consolidated management information;
- we corroborated revenue against transport costs and verified corporate income taxes and value added taxes payments to online government submission portal for selected subsidiaries of the Group;
- we performed revenue analytical procedures including applying data-analytics on revenue from distributors, beverage production channels (in-house production and by external subcontractors) and detailed analysis of product and customer trends;
- we performed additional test of details by selecting additional samples of revenue transactions and tested it against underlying documentation; and
- we sought to identify and understand the relationship of the seasonality of the Group's production and sales of canned products and beverages with the various relevant products harvesting seasons through inquiries and performing procedures such as walkthrough of the business activities and key processes for the Group's manufacturing and sales activities. We corroborated our understanding based on our previous experience and by performing data analytics and observing the trend of production and sales patterns against the seasonality factors.

Key Audit Matter Refinancing of convertible bonds

Risk

The Group undertook a refinancing arrangement whereby the principal amount of the convertible bonds issued by its subsidiary, Garden Fresh (HK) Fruit and Vegetable Co., Limited ("the Original Issuer"), was restructured into exchangeable bonds ("EB") and straight bonds ("SB1 and SB2") on 1 March 2016.

Under the terms of the refinancing, the holders of the EB have the option to convert into shares of Garden Fresh Group Holding Co., Ltd, Cayman ("the Proposed Listco") prior to its maturity 12 months after the closing date i.e. 28 February 2017. Previously, under the terms of the convertible bonds, the holders have the option to convert into shares of the Original Issuer. The redemption date and amount for SB1 is 31 May 2016 and approximately RMB 101.8 million respectively. The redemption date and amount for SB2 is within 12 months after the closing date i.e. 28 February 2017 and is approximately RMB 196.4 million respectively. The redemption date and amount for the EB without a qualifying initial public offering ("IPO" or "Proposed Listing") within 12 months after the closing date i.e. 28 February 2017 and is approximately RMB 534.7 million respectively. SB1 has been repaid on 31 May 2016. We have identified three risks from the refinancing of convertible bonds, namely (1) Accounting for the Modification of the Convertible Bonds, (2) Valuation of EB and (3) Liquidity or Funding of the Group as Key Audit Matters as described in the following paragraphs.

Please refer to Notes 2 and 20 to the accompanying financial statements. We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements.

INDEPENDENT AUDITOR'S REPORT

To the Members of Sino Grandness Food Industry Group Limited

Key Audit Matter (cont'd)

Refinancing of convertible bonds (cont'd)

Risk

(1) Accounting for the Modification of the Convertible Bonds

Management has accounted for the refinancing of the convertible bonds as a substantial modification of the terms of the original financial liability that resulted in an extinguishment of the original financial liability, and recognised the difference between the carrying amount of the financial liability extinguished and the consideration paid in profit or loss in accordance with FRS 39 Financial Instruments: Recognition and Measurement. The gain on the refinancing of convertible bonds that was recognised in profit or loss during the current year was approximately RMB 91.618 million. In recognising the gain on refinancing, management has applied paragraph AG62 of FRS 39 which states that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Management has computed the discounted present value which showed that the changes in cash flows are more than 10 per cent, and concluded that the gain of approximately RMB 91.618 million on refinancing recognised in profit or loss was appropriate. Given that the modification of the convertible bonds is a complex area involving significant judgment by management and accounting estimates, we have identified this as a Key Audit Matter.

Our Responses and Work Performed

- we inspected the refinancing agreements to confirm our understanding of the terms and conditions of the refinancing;
- we evaluated the appropriateness of management's accounting treatment against the relevant accounting standards; and
- we have reviewed management's assessment on the substantial modification of the terms of the original financial liability or a part of it that results in an extinguishment of the original financial liability, and recognising the difference between the carrying amount of the financial liability extinguished and the consideration paid in profit or loss, recalculated the computation of the difference and concluded that the accounting for the modification of the convertible bonds has been made in accordance with the requirements of FRS 39.

Risk

(2) Valuation of EB

Management has accounted for the EB as a financial liability at fair value through profit or loss as it results in more relevant information as the entire EB is managed and is evaluated by management on a fair value basis. The valuation of the EB was carried out by an independent third party valuer, Jones Lang LaSalle Corporate and Appraisal Advisory Limited ("the Valuer"). We have identified the valuation of the EB as a Key Audit Matter as it involves significant estimation uncertainty arising from unobservable inputs in the valuation which could result in material misstatement.

Our Responses and Work Performed

- in assessing the valuation of the EB, we evaluated the competence, capabilities and objectivity of management expert ("the Valuer"), obtained an understanding of the work of that expert and evaluated the appropriateness of that expert's work as audit evidence for the relevant assertion;
- we evaluated whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity; and
- we have evaluated the sensitivity analysis performed by management and assessed the adequacy of the Group's disclosures relating to the assumptions and key estimates used in determining the fair value of the EB using the Binomial Option Pricing Model.

We concluded that the assumptions and estimates used in the valuation were supportable.

INDEPENDENT AUDITOR'S REPORT

To the Members of Sino Grandness Food Industry Group Limited

Key Audit Matter (cont'd)

Refinancing of convertible bonds (cont'd)

Risk

(3) Liquidity or Funding of the Group

The aggregate redemption amounts for the SB2 and EB are approximately RMB 731.1 million and are due on 28 February 2017. The Group's cash and bank balances as at 31 December 2016 stood at RMB 297.7 million. As of the date of this report, the Company is currently in discussions with these bondholders to restructure the SB2 and the EB while it continues in its efforts on the Proposed Listing. In this regard, management has reviewed its sources of funding and working capital requirements and prepared a cash flow forecast for the 12 months after the year end taking into account the settlement of the SB2 and the EB, in the event it is required to do so, including assessing the Group's ability to raise new funds and generate cash flows from operations.

As at 28 February 2017, the Group has collected approximately RMB 432.4 million from its customers. As of that date, the Group has cash and liquidity resources totaling approximately RMB 839.59 million consisting of cash and bank balances of RMB 357.1 million and unutilised bank credit facilities of RMB 482.49 million. On 10 March 2017, the Group further obtained a new bank credit facility of RMB 100 million, thereby increasing the Group's cash and liquidity resources to RMB 939.59 million as of that date. Management concluded that the Group will have sufficient cash resources to settle the SB2 and the EB and pay its other liabilities as and when due on the back of the cash and liquidity resources that are available to the Group and taking into account its working capital needs and considering that the payment for certain capital expenditures that are contracted for to be discretionary. Given the significant size of the redemption amount involved, we have identified liquidity risk to be a Key Audit Matter. Liquidity risk arises if the Group encounters difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or other financial asset.

Our Responses and Work Performed

- we circularised and obtained confirmations from a majority of the SB2 and the EB holders on the principal and redemption amounts and terms and conditions of the SB2 and the EB as at 31 December 2016;
- we discussed with management and a majority of the SB2 and EB holders on the redemption status of the straight bonds and the exchangeable bonds, and understood that negotiations by both parties to restructure and/or settle the EB and SB are still on-going as of the date of our report;
- we tested the Group's collections from its customers as at 28 February 2017 against supporting documentation such as bank credit advices;
- we tested the Group's cash and bank balances as at 28 February 2017 against supporting documentation such as bank statements and examined the unutilised bank credit facilities as at 28 February 2017 and 10 March 2017 against the credit facilities agreement; and
- we reviewed the cash flow requirements of the Group over the next 12 months based on budgets and forecast, challenging the key assumptions used in the cash flow forecasts with reference to historical financial performance and our understanding of the Group's business operations, evaluated the liquidity requirements against the Group's banking facilities terms and conditions and future repayment schedules, understood what forecast capital expenditure is committed and what could be considered discretionary, re-performed the calculations and performed a sensitivity analysis over the inputs to the cash flow forecast.

We consider management's assumptions and conclusion to be consistent with the available evidence and information.

Key Audit Matter

Risk of material misstatement in cash and bank balances

Risk

Cash being a liquid asset is susceptible to risk of accounting irregularities. As part of our risk assessment procedures and considering certain significant developments of the Group such as the proposed rights issue of the Company despite the Group having cash and cash equivalent of RMB 587.3 million as at 30 June 2016 as reported in the half year announcement (1H2016) of the Company on 11 August 2016, we have identified the existence of cash and bank balances as a Key Audit Matter.

Please refer to Note 13 to the accompanying financial statements. We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements.

INDEPENDENT AUDITOR'S REPORT

To the Members of Sino Grandness Food Industry Group Limited

Key Audit Matter (cont'd)

Risk of material misstatement in cash and bank balances (cont'd)

Our Responses and Work Performed

Our procedures to verify the existence of the cash and bank balances of the Group as at 31 December 2016 included, amongst others:

- we performed all bank confirmations for bank balances (including in-person visits to banks in the PRC);
- we obtained bank statements directly from the banks for a majority of the bank balances amounting to approximately RMB 258.6 million in the PRC;
- we performed walkthrough and performed control tests on receipts and payments cycle during the financial year;
- using data analytics, we tested the completeness of the journal population on bank account transactions during the year;
- we tested interbank transfers against underlying supporting documentation on a sample basis;
- we reviewed the year end bank reconciliations and tested the accuracy of the monthly brought forward and closing bank balances;
- we physically counted the cash on hand balances;
- we circularised bank confirmations at one odd date for PRC banks on a sample basis;
- we verified bank balances of RMB 78.3 million through the electronic bank statements via internet banking portal;
- we verified fixed deposit balances of RMB 106.0 million by sighting directly to the bank's computer terminal at the bank's premises, and verified the same balances to the electronic bank statement verified via internet banking portal;
- we verified for consistency in the use of the bank currency symbol (for example "RMB", "CNY" or "¥") for a sample of PRC bank remittance advices; and
- we independently verified certain details such as the name of bank/branch and verification code as stated on the PRC bank remittance advices against the relevant bank's internet portal on a sample basis.

Other Information

Management is responsible for the other information. The other information comprises the "Financial Highlights, Chairman's Message, Operations and Financial Review, Corporate Governance Report, Corporate Social Responsibility and Directors' Statement" included in the annual report, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the remaining sections of the annual report which are expected to be made available to us after that date.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

When we read the remaining sections of the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibility of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

To the Members of Sino Grandness Food Industry Group Limited

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs 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 financial statements.

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

- (a) Identify and assess the risks of material misstatement of the 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.
- (b) 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.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) 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 directors 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 directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

INDEPENDENT AUDITOR'S REPORT

To the Members of Sino Grandness Food Industry Group Limited

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Chang Fook Kay.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore, 31 March 2017

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

	Note	The Company		The Group	
		31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
ASSETS					
Non-Current Assets					
Land use rights	4	-	-	110,296	112,688
Property, plant and equipment	5	18	11	1,078,120	939,503
Subsidiaries	6	85,987	61,094	-	-
Amount owing by subsidiaries	7	548,203	311,040	-	-
Deferred tax assets	8(a)	-	-	-	1,654
Deposits paid for non-current assets	9	-	-	787,802	595,777
		634,208	372,145	1,976,218	1,649,622
Current Assets					
Inventories	10	-	-	44,504	54,688
Trade receivables	11	-	-	1,153,722	953,898
Other receivables	12	135	114	481,057	375,463
Cash and bank balances	13	46,904	4,245	297,749	142,986
		47,039	4,359	1,977,032	1,527,035
Total assets		681,247	376,504	3,953,250	3,176,657
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	14	440,948	440,948	440,948	440,948
(Accumulated losses)/Retained profits		(121,142)	(131,766)	1,728,917	1,203,901
Other reserves	15	49,847	22,673	229,870	162,361
		369,653	331,855	2,399,735	1,807,210
Non-controlling interests		-	-	2,168	2,644
Total equity		369,653	331,855	2,401,903	1,809,854
Liabilities					
Non-Current Liabilities					
Bank borrowings	18	-	-	173,425	-
Deferred tax liabilities	8(b)	20,241	20,241	20,241	20,241
		20,241	20,241	193,666	20,241
Current Liabilities					
Trade payables	16	3,570	1,394	41,285	29,290
Other payables	17	139,088	23,014	187,327	57,042
Notes payable		-	-	-	55,500
Current tax payable		-	-	9,622	41,800
Bank borrowings	18	-	-	263,708	130,000
Convertible loan	19	134,660	-	134,660	-
Straight bonds	20	-	-	193,416	-
Amount owing to subsidiaries	7	14,035	-	-	-
Exchangeable bonds	20	-	-	527,663	-
Convertible bonds including derivatives	20	-	-	-	1,032,930
		291,353	24,408	1,357,681	1,346,562
Total equity and liabilities		681,247	376,504	3,953,250	3,176,657

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CORPORATE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2016

		Year ended 31 December 2016	Year ended 31 December 2015
	Note	RMB'000	RMB'000
The Group			
Revenue	21	3,509,605	3,313,902
Cost of sales		<u>(2,051,897)</u>	<u>(1,940,318)</u>
Gross profit		1,457,708	1,373,584
Other operating income	22(a)	118,926	28,424
Distribution costs	22(b)	(760,699)	(570,242)
Administrative expenses	22(c)	(167,385)	(111,578)
Other operating expenses		(110)	(631)
Finance costs	22(d)	<u>(43,876)</u>	<u>(226,996)</u>
Profit before income tax and changes in fair value of the option derivatives in relation to convertible bonds	22(f)	604,564	492,561
Changes in fair value of exchangeable bonds and option derivatives in relation to convertible bonds	20	<u>133,285</u>	<u>(91,915)</u>
Profit before taxation		737,849	400,646
Taxation	23	<u>(160,774)</u>	<u>(194,577)</u>
Profit for the year and representing total comprehensive income		<u><u>577,075</u></u>	<u><u>206,069</u></u>
* There are no other comprehensive income and expense items for both financial years.			
Profit and total comprehensive income attributable to:			
Equity holders of the Company		577,551	206,673
Non-controlling interests		<u>(476)</u>	<u>(604)</u>
		<u><u>577,075</u></u>	<u><u>206,069</u></u>
		Cents	Cents
		RMB	RMB
Earnings per share:	24		
- Basic		85.8	30.7
- Diluted		<u>84.9</u>	<u>30.6</u>

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2016

	Share capital	Retained profits	Share option reserve	Merger reserve	Statutory common reserve	Total attributable to equity holders of the parent	Non-controlling interests	Total
The Group	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	440,948	1,035,167	10,531	(31,413)	133,162	1,588,395	3,248	1,591,643
Share-based payment expense under ESOS Scheme	-	-	12,142	-	-	12,142	-	12,142
Profit for the year, representing total comprehensive income for the year	-	206,673	-	-	-	206,673	(604)	206,069
Transfer to statutory reserve	-	(37,939)	-	-	37,939	-	-	-
At 31 December 2015	440,948	1,203,901	22,673	(31,413)	171,101	1,807,210	2,644	1,809,854
Share-based payment expense under ESOS Scheme	-	-	27,174	-	-	27,174	-	27,174
Profit for the year, representing total comprehensive income for the year	-	577,551	-	-	-	577,551	(476)	577,075
Dividend paid during the year ¹	-	(12,200)	-	-	-	(12,200)	-	(12,200)
Transfer to statutory reserve	-	(40,335)	-	-	40,335	-	-	-
At 31 December 2016	440,948	1,728,917	49,847	(31,413)	211,436	2,399,735	2,168	2,401,903

¹ Ordinary dividends paid

Final dividend paid in respect of the previous financial year of RMB 0.018 cents (2015 - Nil) per share.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2016

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Cash Flows from Operating Activities		
Profit before taxation	737,849	400,646
Adjustments for:		
Changes in fair value of convertible bonds option derivatives	(175,496)	91,915
Changes in fair value of exchangeable bonds	42,211	-
Gain on restructuring of convertible bond	(91,618)	-
Fair value gain at inception in relation to convertible loan	(7,847)	-
Depreciation of property, plant and equipment	72,609	62,614
Amortisation of land use rights	2,392	1,174
Share-based payment expense under ESOS Scheme	27,174	12,142
Loss/(gain) on disposal of property, plant and equipment (net)	94	(58)
Interest expense	43,876	226,996
Interest income	(1,795)	(1,999)
Unrealised exchange loss	18,458	-
Operating cash flows before working capital changes	667,907	793,430
(Increase)/decrease in deposits pledged with banks	(135,234)	18,490
Decrease/(increase) in inventories	10,184	(3,945)
(Increase)/decrease in operating receivables	(305,418)	42,985
Increase/(decrease) in operating payables	75,087	(90,729)
Cash generated from operations	312,526	760,231
Income tax paid	(191,298)	(174,287)
Interest paid	(25,197)	(8,056)
Net cash generated from operating activities	96,031	577,888
Cash Flows from Investing Activities		
Acquisition of property, plant and equipment	(177,145)	(146,668)
Proceeds from disposal of property, plant and equipment	50	4,663
Deposits paid for non-current assets	(285,101)	(570,777)
Refund of deposits paid for non-current assets	70,544	-
Interest received	1,795	1,999
Net cash used in investing activities	(389,857)	(710,783)

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2016

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Cash Flows from Financing Activities		
Bank loans obtained	326,394	135,000
Bank loans repaid	(195,000)	(64,200)
Repayment of SB1	(101,802)	-
Long term loan proceeds	166,785	-
Convertible loan proceeds	129,178	-
Dividend paid	(12,200)	-
Net cash generated from financing activities	<u>313,355</u>	70,800
Net increase/(decrease) in cash and cash equivalents	19,529	(62,095)
Cash and cash equivalents at beginning of year	112,339	174,434
Cash and cash equivalents at end of year (Note 13)	<u>131,868</u>	<u>112,339</u>

Property, plant and equipment

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RMB 211,370,000 (2015 - RMB 178,230,000), of which RMB 22,532,000 (2015 - RMB 30,000,000) was transferred from deposits paid for non-current assets. Cash payments of RMB 177,145,000 (2015 - RMB 146,668,000) were made to purchase property, plant and equipment. RMB 11,693,000 (2015 - RMB 1,562,000) was recorded as amount owing to contractors and amount owing to suppliers of property, plant and equipment under "Other payables" as at 31 December 2016.

Deposits paid for non-current assets

The Group recorded RMB 787,802,000 (2015 - RMB 595,777,000) as deposits paid for non-current assets, of which cash payment of RMB 285,101,000 (2015 - RMB 570,777,000) was made and refund of RMB 70,544,000 (2015 - Nil) was received during the financial year and RMB 22,532,000 (2015 - RMB 30,000,000) was completed and transferred to property, plant and equipment during the financial year.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

1 General information

The financial statements of the Company and of the Group for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on the date of the Directors' Statement.

The Company was incorporated in Singapore on 20 April 2007 as a private limited company under the name of Sino Grandness Food Industry Group Pte. Ltd. On 12 November 2009, the Company was converted into a public company and assumed the present name of Sino Grandness Food Industry Group Limited. The Company was listed on the SGX-ST on 23 November 2009.

The registered office of the Company is located at Six Battery Road, #10-01, Singapore 049909. The principal place of business of the Group is located at 56th Floor Tower A, Union Plaza, No.5022, Binhe Road, Futian District, Shenzhen, Guangdong Province, The People's Republic of China (the "PRC").

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are disclosed in Note 6 to the financial statements.

2(a) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations promulgated by the Accounting Standards Council ("ASC") of Singapore. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Renminbi ("RMB") which is the Company's functional currency. All financial information presented in RMB has been rounded to the nearest thousand unless otherwise stated.

Significant judgements

The preparation of the consolidated financial statements in conformity with FRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and areas involving a high degree of judgement are described below:

Going concern

As at 31 December 2016, the Company's current liabilities exceeded its current assets by RMB 244,314,000 (2015 - RMB 20,049,000). Notwithstanding this, the financial statements of the Company have been prepared on a going concern basis as the Company is able to obtain additional funds from the subsidiaries to settle its current liabilities and has the ability to direct funds for its own use.

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the respective entities in the Group, judgement is required to determine the currency that mainly influences sales prices of goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on the local management's assessment of the economic environment in which the entities operate and the respective entities' process of determining sales prices.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2(a) Basis of preparation (cont'd)

Significant judgements (cont'd)

Income taxes (Notes 8 and 23)

The Group has exposure to income taxes in the jurisdictions in which it operates. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The extent of deferred taxation provided on the undistributed profits of the Company's PRC subsidiaries is disclosed in Note 8(b) to the financial statements.

Liquidity or funding of the Group

Pursuant to the refinancing of the convertible bonds on 1 March 2016, the Group and the bondholders have agreed to amend the terms and conditions attaching to the existing convertible bonds to permit the bondholders to exchange 60% of the principal amount of the convertible bonds into exchangeable bonds exchangeable into new Garden Fresh Cayman shares, and to restructure 40% of the principal amount of the convertible bonds into debt instruments through the issuance of straight bonds comprising SB1 Bonds and SB2 Bonds (Refer to Note 20).

As at 31 December 2016, the Group has bank balances and cash on hand of RMB 297.7 million (2015 - RMB 143.0 million). As of that date, it has straight bonds (SB2 Bonds) of RMB 193.4 million (2015 - Nil) and exchangeable bonds of RMB 527.7 million (2015 - RMB 1,032.9 million comprising convertible bonds including option derivatives) which have matured on 28 February 2017. The Group has recorded a net profit of RMB 577.1 million (2015 - RMB 206.1 million) and generated cash from operating activities of RMB 96.0 million (2015 - RMB 577.9 million) for the year ended 31 December 2016.

The Company had on 1 July 2013 announced that it was proposing to spin-off Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited together with its group of subsidiaries on an internationally recognised stock exchange (the "Proposed Listing"). On 31 March 2016, the Company's wholly owned subsidiary, Garden Fresh Group Holding Co., Ltd has submitted an application to the Stock Exchange of Hong Kong ("HKSE") for the Proposed Listing on 31 March 2016 ("HKSE Application") along with a draft prospectus as part of the HKSE Application. The listing application is valid for 6 months from date of submission after which it will automatically lapse and relevant information will need to be updated. The lapsing of the listing application does not mean that the Proposed Listing has been cancelled. The Company is in the process of updating the relevant information. The Company reiterates that it is continuing its ongoing efforts towards obtaining the approval for the Proposed Listing of the Beverage Business. The Proposed IPO is still in progress as at the date of the financial statements.

After the refinancing of the convertible bonds on 1 March 2016, the Company has SB1 Bonds (comprising the 2011 SB1 and 2012 SB1 Bonds) with a redemption amount of RMB 101.8 million which have been repaid on 31 May 2016, and SB2 Bonds (comprising the 2011 SB2 and 2012 SB2 Bonds) with a redemption amount of RMB 196.4 million due on 28 February 2017.

The maximum redemption sums for the straight bonds and exchangeable bonds (without a qualifying Proposing Listing by 28 February 2017) are RMB 731.1 million at its maturity date of 28 February 2017. As of the date of this financial statements, the Company is currently in discussions with these bondholders to restructure the SB2 and the EB while it continues in its efforts on the Proposed Listing.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2(a) Basis of preparation (cont'd)

Significant judgements (cont'd)

Liquidity or funding of the Group (cont'd)

The Group, including the Company, are of the view that it will have sufficient cash and liquidity resources to repay the straight bonds and the exchangeable bonds due on 28 February 2017 with a maximum redemption sum of RMB 731.1 million, in the event it is required to do so, and to meet its working capital requirements for the 12 months after the year end for the following reasons:

- as at 28 February 2017, the Group has cash and liquidity resources totalling RMB 839.59 million consisting of cash and bank balances of RMB 357.1 million and untapped bank credit facilities of RMB 482.49 million;
- on 10 March 2017, the Group has further obtained new bank credit facilities of RMB 100 million. Accordingly, as of that date, the Group has approximately cash and liquidity resources of RMB 939.59 million, which is sufficient to repay the straight bonds and exchangeable bonds of RMB 731.1 million in the event it is required to;
- the Group is actively monitoring the collection from its customers. As at 31 December 2016, the Group's trade receivables balance was approximately RMB 1,153.7 million (2015 - RMB 953.9 million). As at 28 February 2017, approximately RMB 432.4 million has been received from customers;
- the Group has net current assets of RMB 619.4 million (2015 - RMB 180.5 million) as at 31 December 2016;
- while continuing to move ahead with its plan on the Proposed IPO, management will also actively monitor and manage its cash flow positions, banking facilities, trade receivables and capital investment plans. If required, the management shall reduce investment sums or postpone its capital investment plans in order to further strengthen its cash flow position;
- management has prepared a cash flow forecast for the 12 months after the year end which indicates that sufficient cash resources will be available to meet the working capital needs of the Group including the repayment of the straight bonds and the exchangeable bonds (taking into account the Group's banking facilities terms and condition and future repayment plans, including any discretionary capital expenditure payments for capital committed) when due; and
- as of the date of this financial statements, the bondholders have not demanded repayment from the Group and discussions are ongoing between the management and bondholders to further restructure the exchangeable bonds and the straight bonds.

Critical accounting estimates and key sources of estimation uncertainty

In the process of applying the Company's and the Group's accounting policies, which are described in Note 3, management had made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

Amortisation of land use rights (Note 4)

Land use rights are amortised on a straight-line basis over their estimated useful lives. The Group has been granted rights of use of land of 50 years. The carrying amount of the Group's land use rights as at 31 December 2016 is RMB 110.3 million (2015 - RMB 112.7 million). Changes in the expected level of usage could impact the economic useful lives of land use rights, therefore future amortisation charges could be revised. If amortisation on land use right increases/decreases by 10% from management's estimates, the Group's profit for the year will decrease/increase by approximately RMB 0.2 million (2015 - RMB 0.1 million).

Depreciation of property, plant and equipment (Note 5)

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of property, plant and equipment to be within 5 to 40 years. The carrying amounts of the Company's and the Group's property, plant and equipment as at 31 December 2016 are RMB 18,000 (2015 - RMB 11,000) and RMB 1,078.1 million (2015 - RMB 939.5 million) respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. If depreciation on property, plant and equipment increases/decreases by 10% from management's estimates, the Group's profit for the year will decrease/increase by approximately RMB 7.3 million (2015 - RMB 6.3 million).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2(a) Basis of preparation (cont'd)

Critical accounting estimates and key sources of estimation uncertainty (cont'd)

Useful lives of plant and machinery (Note 5)

Plant and machinery are depreciated on a straight-line basis over their estimated economic useful lives. Management estimates the useful lives of these assets to be 10 years. Changes in the expected level of usage and technological developments could impact the economic useful lives of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's plant and machinery at the end of the reporting period is disclosed in Note 5 to the financial statements. A 10% difference in the expected useful lives of these assets from management's estimates would result in an increase/decrease in the Group's result by RMB 4.9 million (2015 - RMB 4.6 million).

Allowance for inventory obsolescence (Note 10)

The Group reviews the ageing analysis of inventories at each reporting date, and makes provisions for obsolete and slow moving inventory items identified that are no longer suitable for sale. The net realisable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories.

If the net realisable value of the inventories decrease by 10% from management's estimates, the Group's results may decrease by RMB 4.5 million (2015 - RMB 5.5 million).

Allowance for bad and doubtful debts (Notes 11 and 12)

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade receivables and other receivables. Allowances are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expected outcome is different from the original estimate, such difference will impact the carrying value of trade receivables, other receivables and doubtful debt expenses in the period in which such estimate has been changed.

If the net present values of estimated cash flows had been lower by 10% from management's estimates for all past due loans and receivables, the allowance for impairment of the Group may have been higher by RMB 36.3 million (2015 - RMB 10.0 million). However, the Group does not foresee any additional impairment in trade receivables and other receivables.

Fair value measurements and valuation processes

To the extent of fair value measurements from the convertible bonds for financial reporting purposes and for certain assets and liabilities of the Group, the Board of Directors of the Group uses their judgement in adopting appropriate valuation techniques for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

In relation to the valuation of the convertible bonds which were refinanced on 1 March 2016 into exchangeable bonds and straight bonds, management had classified and measured the exchangeable bonds as a hybrid financial liability instrument with embedded derivative at fair value through profit or loss and accounted for the straight bonds at amortised cost.

In estimating fair value of an asset or a liability, the Group uses market-observable data to the extent it is available and engages third party qualified valuers to perform the valuation. The Chief Financial Officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Chief Financial Officer reports the valuation findings to the Board of Directors of the Group at the end of each reporting period to explain the cause of fluctuations in the fair value of the assets and/or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2(a) Basis of preparation (cont'd)

Critical accounting estimates and key sources of estimation uncertainty (cont'd)

Fair value measurements and valuation processes (cont'd)

The fair value of the exchangeable bonds was determined using the Binomial Option Pricing Model, and which are subject to the limitation of the Binomial Option Pricing Model that incorporates market data and involving uncertainty in estimates used by the directors of the Company in the assumptions. As the Binomial Option Pricing Model requires input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. The amortised cost of the straight bonds was based on refinanced principal on 1 March 2016.

Details of the assumptions used are disclosed in Note 20.

No sensitivity analysis has been presented on the fair value of the exchangeable bonds as the bond has matured on 28 February 2017. The carrying amounts at 31 December 2016 and redemption amounts at 28 February 2017 of the exchangeable bonds are approximately RMB 527.7 million and RMB 534.7 million respectively.

The accounting policies used by the Company and by the Group have been applied consistently to all periods presented in these financial statements.

2(b) Interpretations and amendments to published standards effective in 2016

Reference

Description

Amendments to FRS 1

Disclosure Initiatives

The amendments to FRS 1 Presentation of Financial Statements clarify, rather than significantly change, existing FRS 1 requirements. The amendments clarify:

- The materiality requirements in FRS 1
- That specific line items in the statement(s) of profit or loss and other comprehensive income ("OCI") and the statement of financial position may be disaggregated
- That entities should adopt a systemic order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. The amendments to FRS 1 are effective for annual periods beginning on or after 1 January 2016. As this is a disclosure standard, it will have no impact to the financial position and performance of the Group when applied in.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2(c) FRSs issued but not yet effective

The Accounting Standards Council announced on 29 May 2014 that Singapore-incorporated companies listed on the SGX-ST will apply a new financial reporting framework identical to the International Financial Reporting Standards ("IFRS") for financial year ending 31 December 2018 onwards. Singapore-incorporated companies listed on the SGX-ST will have to assess the impact of IFRS 1 First-time adoption of IFRS when transitioning to the new reporting framework. The Group is currently assessing the impact of transitioning to the new reporting framework on its financial statements.

The following are the new or amended FRS and INT FRS issued that are not yet effective but may be early adopted for the current financial year:

Reference	Description	Effective date (Annual periods beginning on or after)
Amendments to FRS 7	Statement of Cash Flows	1 January 2017
Amendments to FRS 12	Recognition of Deferred Tax Assets for Unrecognised Losses	1 January 2017
Amendments to FRS 102	Classification and Measurement of Share-based Payment Transactions	1 January 2018
FRS 115	Revenue from Contracts with Customers	1 January 2018
Clarifications to FRS 115	Revenue from Contracts with Customers	1 January 2018
FRS 109	Financial Instruments	1 January 2018
FRS 116	Leases	1 January 2019

Amendments to FRS 7 Statement of Cash Flows

The amendments to FRS 7 Statement of Cash Flows required entities to reconcile cash flows arising from financing activities as reported in the statement of cash flows - excluding contributed equity - to the corresponding liabilities in the opening and closing statements of financial position and to disclose on any restrictions over the decisions of an entity to use cash and cash equivalent balances, in particular way - e.g. any tax liabilities that would arise on repatriation of foreign cash and cash equivalent balances. These amendments are effective on beginning or after 1 January 2017. As this is a disclosure standard, it will have no impact to the financial position and performance of the Group when applied in.

Amendments to FRS 102 Classification and Measurement of Share-based Payment Transactions

The amendments to FRS 102 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- (i) The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
- (ii) Share-based payment transactions with a net settlement feature for withholding tax obligations and
- (iii) A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Companies are required to apply the amendments for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact to the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2(c) FRSs issued but not yet effective (cont'd)

FRS 115 Revenue from Contracts with Customers

FRS 115 Revenue from Contracts with Customers establishes a framework for determining when and how to recognise revenue. The objective of the standard is to establish the principles that an entity shall apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. It established a new five-step model that will apply to revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods and services to a customer.

The standard replaces FRS 11 Construction Contracts, FRS 18 Revenue, INT FRS 113 Customer Loyalty Programmes, INT FRS 115 Agreements for Construction of Real Estate, INT FRS 118 Transfer of Assets from Customers and INT FRS 31 Revenue - Barter Transactions involving Advertising Services. The new standard applies to contracts with customers. However, it does not apply to insurance contracts, financial instruments or lease contracts, which fall into the scope of other standards.

FRS 115 is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact to the consolidated financial statements.

Clarifications to FRS 115 Revenue from Contracts with Customers

The amendments clarify how to:

- Identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract
- Determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided)
- Determine whether the revenue from granting a licence should be recognised at a point in time or over time.

The amendments have the same effective date as the Standard, FRS 115, i.e. on 1 January 2018.

FRS 109 Financial Instruments

FRS 109 Financial Instruments replaces the FRS 39 and it is a package of improvements introduced by FRS 109 which include a logical model for:

- Classification and measurement;
- A single, forward-looking "expected loss" impairment model and
- A substantially reformed approach to hedge accounting

FRS 109 is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact to the consolidated financial statements.

FRS 116 Leases

A major revision of the way in which companies where it is required lessees to recognise most leases on their balance sheets. Lessor accounting is substantially unchanged from current accounting in accordance with FRS 17. FRS 116 Leases will be effective for accounting periods beginning on or after 1 January 2019. Early adoption will be permitted, provided the company has adopted FRS 115. The Group is currently assessing the impact to the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Significant accounting policies

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, incomes and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Losses and other comprehensive losses are attributable to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts as at that date when control is lost;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, the Group controls an investee, if and only if, the Group has all of the following:

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Significant accounting policies (cont'd)

Consolidation (cont'd)

A change in the Group's ownership interests in subsidiaries that does not result in the Group losing control over the subsidiaries is 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 is 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 interest. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed off 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 FRSs). The fair value of any investment retained in the former subsidiary at the date when the control is lost is regarded as the fair value on the initial recognition for subsequent accounting under FRS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Transactions with non-controlling interest

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Business combination

Business combinations are accounted for using the acquisition method in accordance with FRS 103 Business Combination as at the date of acquisition, which is the date on which control is transferred to the Group.

The Group measures goodwill at the date of acquisition as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the investee; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the investee,

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationship. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the date of acquisition and included in the consideration transferred. If the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term of 50 years.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Significant accounting policies (cont'd)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed using the straight-line method to allocate the depreciable amount of the assets over the estimated useful lives as follows:

Factory and warehouse premises	20 to 40 years
Renovation	5 years
Plant and machinery	10 years
Motor vehicles	5 to 10 years
Office equipment	5 to 10 years

No depreciation has been provided for construction-in-progress.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

For acquisitions and disposals during the financial year, depreciation is provided from the month of acquisition and to the month before disposal respectively. Fully depreciated property, plant and equipment, if any, are retained in the books of accounts until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate at each reporting date as a change in estimates to ensure that the method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the financial period the asset is derecognised.

Government grant/subsidy

Government grant/subsidy is recognised at its fair value where there is reasonable assurance that the grant/subsidy will be received and all attaching conditions will be complied with. Where the grant/subsidy relates to an asset, the fair value is recognised as deferred capital grant on the consolidated statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Investment in subsidiaries

In the Company's separate financial statements, investments in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Significant accounting policies (cont'd)

Financial assets

Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the assets were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the Company or the Group commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at least at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company or the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company or the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables include trade receivables and other receivables. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or write back is recognised in profit or loss.

Derivative financial instruments

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value. The Company and the Group do not designate the derivative financial instrument as a hedging instrument. Consequently, the fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted-average basis and includes all costs in bringing the inventories to their present location and condition. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Significant accounting policies (cont'd)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and bank deposits net of pledged deposits.

Financial liabilities

The Company's and the Group's financial liabilities include borrowings, trade payables, other payables and related party balances.

Financial liabilities are recognised when the Company or the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are recognised as an expense in "Finance costs" in the profit or loss. Financial liabilities are derecognised if the Company's or the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company or the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the profit or loss over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Borrowings which are due to be settled within twelve months after the end of the reporting period are included in current borrowings in the statements of financial position even though the original terms were for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the end of the reporting period. Borrowings to be settled within the Group's normal operating cycle are considered as current. Other borrowings due to be settled more than twelve months after the end of the reporting period are included in non-current borrowings in the statements of financial position.

Trade payables, other payables and related party balances are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Dividend distributions to shareholders are included in current financial liabilities when the dividends are declared and payable.

As at 31 December 2016, the exchangeable bonds (hybrid instrument) are measured at fair value through profit or loss. The Group does not have any available-for-sale financial assets or held-to-maturity investment.

Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the reporting year end date. The quoted market prices used for financial assets are the current bid prices and the appropriate quoted market prices used for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions based on market conditions that are existing at each reporting year end date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analysis and Binomial Option Pricing Model are also used to determine the fair values of the financial instruments.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Significant accounting policies (cont'd)

Convertible bonds

The liability component is recognised initially at its fair value, determined using a market interest rate for equivalent non-convertible bonds. It is subsequently carried at amortised cost using the effective interest method until the liability is extinguished on conversion or redemption of the bonds.

Conversion option

If the conversion option in a convertible bond is settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the issuer's own equity instruments, the conversion option is a derivative liability. The derivative is required to be carried at fair value with changes in fair value recognised in profit or loss.

On issuance of such convertible bonds, the proceeds are allocated between the embedded equity conversion option and the liability component. The embedded option is recognised at its fair value. The liability component is recognised as the difference between total proceeds and the fair value of the equity conversion option.

The equity conversion option is subsequently carried at its fair value with fair value changes recognised in profit or loss. The liability component is carried at amortised cost until the liability is extinguished on conversion or redemption.

When an equity conversion option is exercised, the carrying amounts of the liability component and the equity conversion option are derecognised with a corresponding recognition of share capital.

Exchangeable bonds

Financial liabilities classified as "Designated as at fair value through profit or loss" have been designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The liabilities are part of a group of financial liabilities or financial assets and liabilities that are managed and whose performance is evaluated on a fair value basis.
- The liabilities are hybrid financial instruments containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

The Group has classified and measured the exchangeable bonds as a hybrid instrument with an embedded derivative at fair value through profit or loss upon its inception on 1 March 2016 following the refinancing of the convertible bonds into exchangeable bonds and straight bonds. Changes in the fair value of the exchangeable bonds are recognised in profit or loss during the year.

Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of a guarantee. Subsequent to initial recognition, financial guarantees are recognised as income in profit or loss over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to profit or loss.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Significant accounting policies (cont'd)

Dividends

Final dividends proposed by the directors are not accounted for in shareholders' equity as an appropriation of retained profit, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because of the articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Borrowing costs

Borrowing costs are recognised in the profit or loss in the period they are incurred.

Leases

Operating leases

Where the Group is the lessee, rentals on operating leases are charged to the profit or loss on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in the profit or loss when incurred.

Contingent rents are mainly determined as a percentage of revenue in excess of a specified amount during the month. They are charged to the profit or loss when incurred.

Where the Group is the lessor, assets leased out under operating leases are included in investment properties and are stated at revalued amounts and not depreciated. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting or taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liability has been recognised in respect of certain of the temporary differences associated with undistributed earnings of certain subsidiaries of the Group. The Group has determined that not all the undistributed earnings of the subsidiaries will be distributed in the foreseeable future. Withholding tax is levied on dividends declared to foreign investors from foreign investment enterprises established in Mainland China. The Group made provision for deferred tax liabilities on withholding tax of the forecasted dividend payout of the earnings of its PRC subsidiaries.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Significant accounting policies (cont'd)

Deferred income tax is measured:

- (a) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the date of the reporting period; and
- (b) based on the tax consequence that will follow from the manner in which the Company and the Group expect, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a transaction which is recognised either in other comprehensive income or directly in equity.

Value-added tax

The Group's sales of goods in the PRC are subjected to Value-added tax ("VAT") at the applicable tax rate of 17% for PRC domestic sales. Input VAT on purchases can be deducted from output VAT subject to agreement by the tax authority. The Group's export sales are not subject to VAT.

Revenue, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "other receivables" or "other payables" in the consolidated statement of financial position.

Employee benefits

Defined contribution schemes

The Company and the Group participate in the defined contribution national pension schemes as provided by the laws of the countries in which they have operations. In particular, the Singapore incorporated company in the Group contributes to the Central Provident Fund, a defined contribution plan regulated and managed by the Government of Singapore. The subsidiaries in the PRC are required to provide certain staff pension benefits to their employees under existing PRC regulations. The contributions to national pension schemes are charged to profit or loss in the period as incurred to which the contributions relate.

Employee leave entitlements

No provision has been made for employee leave entitlements as any unconsumed annual leave will be forfeited.

Employee share option scheme ("ESOS Scheme")

The Company has an employee share option plan for the granting of non-transferable options.

The Company issues equity-settled share-based payments to certain employees. The fair value of the employee services received in exchange for the grant of options is recognised as an expense in profit or loss with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At the end of each reporting period, the Company revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share option reserve over the remaining vesting period.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Significant accounting policies (cont'd)

Employee benefits (cont'd)

Employee share option scheme ("ESOS Scheme") (cont'd)

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve are credited to the share capital account, when new ordinary shares are issued, or to the "treasury shares" account, when treasury shares are re-issued to the employees.

In the Company's separate financial statements, the fair value of options granted to employees of its subsidiaries is recognised as an increase in the cost of the Company's investment in subsidiaries, with a corresponding increase in equity over the vesting period.

In the Company's separate financial statements, the fair value of options granted to employees of its subsidiaries is recognised as an increase in the cost of the Company's investment in subsidiaries, with a corresponding increase in equity over the vesting period.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified. If the original terms of the award are met, an additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Directors are considered key management personnel.

Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Company and the Group if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or the Group or of a parent of the Company.
- (b) An entity is related to the Company and the Group if any of the following conditions applies:
 - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
 - (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); or
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Significant accounting policies (cont'd)

Impairment of non-financial assets

The carrying amounts of the Company's and the Group's non-financial assets subject to impairment are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the asset belongs will be identified.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value-in-use, based on an internal discounted cash flow evaluation.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Any impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to equity.

With the exception of goodwill,

- an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decrease;
- an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised; and
- a reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in profit or loss, a reversal of that impairment loss is recognised as income in profit or loss.

An impairment loss in respect of goodwill is not reversed, even if it relates to impairment loss recognised in an interim period that would have been reduced or avoided had the impairment assessment been made at a subsequent reporting or end of reporting period.

Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes relevant value-added tax and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Significant accounting policies (cont'd)

Revenue recognition (cont'd)

Revenue from the sale of canned vegetables and canned fruits and fruit juices is recognised when significant risks and rewards of ownership are transferred to the buyer and the amount of revenue and the costs of the transactions can be measured reliably.

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

Rental income from the rental of factory and warehouse space is recognised upon acceptance of tenancy.

Functional currency

Functional and presentation currency

Items included in the consolidated financial statements of the Company and of the Group are measured using the currency of the primary economic environment in which the Company and the Group operate in ("the functional currency"). The consolidated financial statements of the Group are presented in RMB, which is also the functional currency of the Company.

Conversion of foreign currencies

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the end of the reporting period are recognised in the profit or loss. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualified as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

Foreign exchange gains and losses that relate to borrowings are presented in the profit or loss within "Finance costs". Foreign currency gains and losses are reported on a net basis as either other income or other operating expense depending on whether foreign currency movements are in a net gain or net loss position.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

Operating segments

For management purposes, operating segments are organised based on their products which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers are directly accountable to the Chief Executive Officer who regularly reviews the segment results in order to allocate resources to the segments and to assess segment performance.

Financial instruments

Financial instruments carried on the statements of financial position include cash and bank balances, financial assets and financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. These instruments are recognised when contracted for.

Disclosures on financial risk management objectives and policies are provided in Note 29.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

4 Land use rights

		31 December 2016	31 December 2015
	Note	RMB'000	RMB'000
<u>Cost</u>			
The Group			
Balance at beginning of year		119,977	119,977
Additions		-	-
Balance at end of year		119,977	119,977
<u>Accumulated amortisation</u>			
Balance at beginning of year		7,289	6,115
Amortisation for the year	22(c) & 22(f)	2,392	1,174
Balance at end of year		9,681	7,289
<u>Net book value</u>		110,296	112,688

As at the end of the reporting period, the carrying amount of land use rights of the Group which have been pledged to financial institutions to secure banking facilities are as follows:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Net book value	51,542	10,331

Land use rights relate to the following parcel of lands:

<u>Location</u>	<u>Period</u>	<u>Land area</u> (square metres) ["sq m"]
#1 Land at Qiongxin Road side, Linqiong Town, Qionglai City The People's Republic of China (邳州市临邳镇邳新路侧)	50 years (expiring on 2 March 2055)	80,834.47
#2 West of Nanduan Road, Yuanyi Road, Economic Development Zone, Shan County The People's Republic of China (单县开发区园艺路南段路西)	50 years (expiring on 29 December 2058)	70,895.00
#3 Land at Jing Xiu Jiang Nan East Side, Guang Dong Road, Dang Yang City The People's Republic of China (当阳市广州路(锦绣江南东侧))	50 years (expiring on 30 September 2061)	101,720.20
#4 Land at East Side, Jing Yi Road Jing Ji Kai Fa District Gu Zhen Town, Beng Bu City An Hui Province The People's Republic of China (安徽省蚌埠市固镇县经济开发区经 一路东侧)	50 years (expiring on 20 April 2064)	133,333.33

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

4 Land use rights (cont'd)

These land use rights were acquired from:

- #1 邛崃市人民政府 - Grandness (Sichuan) Foods Co., Ltd.;
- #2 单县市人民政府 - Grandness (Shanxian) Food Co., Ltd.;
- #3 当阳市人民政府 - Garden Fresh (Hubei) Food & Beverage Co., Limited; and
- #4 固镇县人民政府 - Grandness (Anhui) Foods Co., Ltd.

5 Property, plant and equipment

The Company	Office equipment RMB'000
<u>Cost</u>	
At 1 January 2015	48
Additions	-
At 31 December 2015	<u>48</u>
Additions	<u>13</u>
At 31 December 2016	<u>61</u>
<u>Accumulated depreciation</u>	
At 1 January 2015	31
Depreciation for the year	6
At 31 December 2015	<u>37</u>
Depreciation for the year	<u>6</u>
At 31 December 2016	<u>43</u>
<u>Net book value</u>	
At 31 December 2016	<u>18</u>
At 31 December 2015	<u>11</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

5 Property, plant and equipment (cont'd)

The Group	Factory and warehouse premises RMB'000	Renovation RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction- in-progress RMB'000	Total RMB'000
<u>Cost</u>							
At 1 January 2015	342,036	3,812	460,551	4,524	1,990	139,992	952,905
Additions	597	42	34,203	360	307	142,721	178,230
Reclassification	113,950	-	(19)	38	(55)	(113,914)	-
Disposal	-	-	(7,081)	(381)	(14)	-	(7,476)
At 31 December 2015	456,583	3,854	487,654	4,541	2,228	168,799	1,123,659
Additions	95,966	82	485	88	91	114,658	211,370
Reclassification	204,087	-	29,031	-	-	(233,118)	-
Disposal	-	(12)	(126)	(958)	(2)	-	(1,098)
At 31 December 2016	756,636	3,924	517,044	3,671	2,317	50,339	1,333,931
<u>Accumulated depreciation</u>							
At 1 January 2015	48,687	3,660	68,105	2,659	1,302	-	124,413
Depreciation for the year	16,003	89	45,911	371	240	-	62,614
Disposal	-	-	(2,519)	(343)	(9)	-	(2,871)
At 31 December 2015	64,690	3,749	111,497	2,687	1,533	-	184,156
Depreciation for the year	22,666	45	49,209	432	257	-	72,609
Disposal	-	-	(47)	(905)	(2)	-	(954)
At 31 December 2016	87,356	3,794	160,659	2,214	1,788	-	255,811
<u>Net book value</u>							
At 31 December 2016	669,280	130	356,385	1,457	529	50,339	1,078,120
At 31 December 2015	391,893	105	376,157	1,854	695	168,799	939,503

(a) Depreciation is charged to:

The Group	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Cost of sales		40,440	39,067
Distribution costs	22(b)	3,701	3,070
Administrative expenses	22(c)	28,468	20,477
	22(f)	72,609	62,614

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

5 Property, plant and equipment (cont'd)

(b) Factory and warehouse premises are located at:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
At cost		
Factory and warehouse premises		
- #1 (Note 4)	66,157	51,657
- #2 (Note 4)	120,586	52,231
- #3 (Note 4)	253,790	193,927
- #4 (Note 4)	271,544	114,209
- #5 *	44,559	44,559
	756,636	456,583

* Relate to the following land under lease:

Location	Land area (sq m)	Ownership	Effective date	Expiry date
山西省永济市蒲州 老城内部	38,686.86	永济市蒲州镇镇西 文学村村民委员会	20 November 2015	19 November 2025

(c) As at the end of the reporting period, the carrying amount of property, plant and equipment of the Group which have been pledged to financial institutions to secure banking facilities amounting to RMB 521.5 million (2015 - RMB 82.3 million) was as follows:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Factory and warehouse premises - net book value	357,461	82,266
Plant and machinery - net book value	164,030	-

(d) The construction-in-progress relate to:

	Estimated date of completion
(i) the construction of factory and hostel on the existing land at West of Nanduan Road, Yuanyi Road, Economic Development Zone, Shan County, The People's Republic of China (单县开发区园艺路南段);	November 2017
(ii) the administration building on the existing land at West of Nanduan Road, Yuanyi Road, Economic Development Zone, Shan County, The People's Republic of China (单县开发区园艺路南段路西)	November 2017

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

6 Subsidiaries

		31 December 2016	31 December 2015
	Note	RMB'000	RMB'000
The Company			
Unquoted equity investments, at cost		42,021	42,021
Fair value of share options granted	(a)	43,966	19,073
		85,987	61,094

(a) Being fair value of share options granted to the employees of the subsidiaries.

The subsidiaries are:

Name	Country of incorporation / principal place of business	Cost of investment		Effective percentage of equity held		Principal activities
		2016	2015	2016	2015	
		RMB'000	RMB'000	%	%	
<u>Held by the Company</u>						
Grandness (HK) Industry Co., Limited * (振鹏达(香港)实业有限公司) ¹	Hong Kong	1,848	1,848	100	100	Investment holding
Shanxi Yongji Huaxin Food Co., Ltd. * (山西永济华鑫食品有限公司) ²	The People's Republic of China ("PRC")	40,173	40,173	100	100	Production and sale of canned vegetables and canned fruits
<u>Held by Grandness (HK) Industry Co., Limited (振鹏达(香港)实业有限公司)</u>						
Shenzhen Grandness Industry Groups Co., Ltd. * (深圳振鹏达实业集团有限公司) ³	PRC	30,636	11,017	58.3	58.3	Sale of canned vegetables and canned fruits
<u>Held by Grandness (HK) Industry Co., Limited (振鹏达(香港)实业有限公司)</u>						
Grandness Group Co., Limited *, + (振鹏达集团股份有限公司) ¹	Hong Kong	-	-	100	-@	Investment holding
Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited * (鲜绿园(香港)果蔬饮料有限 公司) ¹	Hong Kong	-	-	-&	100	Investment holding
Balance carried forward		72,657	53,038			

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

6 Subsidiaries (cont'd)

Name	Country of incorporation / principal place of business	Cost of investment		Effective percentage of equity held		Principal activities
		2016	2015	2016	2015	
		RMB'000	RMB'000	%	%	
Balance brought forward		72,657	53,038			
Grandness (Anhui) Foods Co., Ltd. * (振鹏达(安徽)食品有限公司) ⁷	PRC	-	-	100	100	Production and sale of fruits and vegetable juices
Garden Fresh Group Holding Co., Ltd * (鲜绿园集团控股有限公司) ⁸	Cayman Islands	-	-	100	100	Investment holding
<u>Held by Garden Fresh Group Holding Co., Ltd</u> (鲜绿园集团控股有限公司)						
Garden Fresh Beverage Group Co., Limited *, ^ (鲜绿园饮料集团有限公司) ⁸	British Virgin Islands	-	-	100^{&}	- ^{&}	Investment holding
Grandness Group Co., Limited *, + (振鹏达集团股份有限公司) ¹	Hong Kong	-	-	- [@]	100	Investment holding
<u>Held by Garden Fresh Beverage Group Co., Limited</u> (鲜绿园饮料集团有限公司)						
Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited * (鲜绿园(香港)果蔬饮料有限 公司) ¹	Hong Kong	-	-	100	- ^{&}	Investment holding
<u>Held by Shanxi Yongji Huaxin Food Co., Ltd.</u> (山西永济华鑫食品有限公司)						
Shenzhen Grandness Industry Groups Co., Ltd. * (深圳振鹏达实业集团有限公司) ⁹	PRC	-	-	41.7	41.7	Sale of canned vegetables and canned fruits
Grandness (Sichuan) Foods Co., Ltd. *, # (四川振鹏达食品有限公司) ⁴	PRC	-	-	20.77[#]	20.77 [#]	Production and sale of canned vegetables and canned fruits
Balance carried forward		72,657	53,038			

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

6 Subsidiaries (cont'd)

Name	Country of incorporation / principal place of business	Cost of investment		Effective percentage of equity held		Principal activities
		2016	2015	2016	2015	
		RMB'000	RMB'000	%	%	
Balance brought forward		72,657	53,038			
<u>Held by Shenzhen Grandness Industry Groups Co., Ltd.</u> (深圳振鹏达实业集团有限公司)						
Grandness (Sichuan) Foods Co., Ltd. *, # (四川振鹏达食品有限公司) ⁴	PRC	-	-	51#	51#	Production and sale of canned vegetables and canned fruits
Dongpeng (Chengdu) Agricultural Development Co., Ltd. * (成都东鹏农业发展有限公司) ⁴	PRC	-	-	100	100	Inactive
Grandness (Shanxian) Food Co., Ltd. * (山东单县振鹏达食品有限公司) ⁵	PRC	-	-	100	100	Production and sale of canned vegetables and canned fruits
Grandness (Hubei) Foods Co., Ltd. * (湖北振鹏达食品有限公司) ⁶	PRC	-	-	100	100	Production and sale of canned vegetables and canned fruits
Hao Tian Yuan Industry (Shenzhen) Co. Ltd. * (好田园实业(深圳)有限公司) ⁷	PRC	-	-	100	100	Sales and distribution of food and related products
<u>Held by Grandness (Shanxian) Food Co., Ltd.</u> (山东单县振鹏达食品有限公司)						
Grandness (Sichuan) Foods Co., Ltd. *, # (四川振鹏达食品有限公司) ⁴	PRC	-	-	4.78#	4.78#	Production and sale of canned vegetables and canned fruits
<u>Held by Dongpeng (Chengdu) Agricultural Development Co., Ltd.</u> (成都东鹏农业发展有限公司)						
Grandness (Sichuan) Foods Co., Ltd. *, # (四川振鹏达食品有限公司) ⁴	PRC	-	-	4.78#	4.78#	Production and sale of canned vegetables and canned fruits
Balance carried forward		72,657	53,038			

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

6 Subsidiaries (cont'd)

Name	Country of incorporation / principal place of business	Cost of investment		Effective percentage of equity held		Principal activities
		2016	2015	2016	2015	
		RMB'000	RMB'000	%	%	
Balance brought forward		72,657	53,038			
<u>Held by Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited</u> (鲜绿园(香港)果蔬饮料有 限公司)						
Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited *	PRC	13,330	8,056	100	100	Sale of fruits and vegetable juices
(鲜绿园(深圳)果蔬饮料有限 公司) ³						
Garden Fresh (Hubei) Food & Beverage Co., Limited *	PRC	-	-	100	100	Production and sale of fruits and vegetable juices
(鲜绿园(湖北)食品饮料有限 公司) ⁶						
<u>Held by Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited</u> (鲜绿园(深圳)果蔬饮料有 限公司)						
Garden Fresh (Sichuan) Fruit & Vegetable Beverage Co., Limited *	PRC	-	-	90	90	Production and sale of fruits and vegetable juices
(四川鲜绿园果蔬饮料有限 公司) ⁴						
<u>Held by Garden Fresh (Hubei) Food & Beverage Co., Limited</u> (鲜绿园(湖北)食品饮料有限 公司)						
Garden Fresh (Sichuan) Fruit & Vegetable Beverage Co., Limited *	PRC	-	-	10	10	Production and sale of fruits and vegetable juices
(四川鲜绿园果蔬饮料有限 公司) ⁴						
Balance carried forward		85,987	61,094			

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

6 Subsidiaries (cont'd)

- * Audited by Foo Kon Tan LLP for consolidation purposes.
- # Together with other wholly-owned subsidiaries of the Company, the effective interest in Grandness (Sichuan) Foods Co., Ltd. remained at 81.33%.
- + The subsidiary was formerly known as Garden Fresh Group Co., Limited (鲜绿园集团股份有限公司).
- ^ The subsidiary was newly incorporated during the year on 3 February 2016.
- & Restructuring within the Group has been performed in preparation for IPO purposes. In 2015, Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited was 100% held by Grandness (HK) Industry Co., Limited. In 2016, for IPO preparation purposes, restructuring took place in February 2016 whereby Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited was held directly by Garden Fresh Beverage Group Co., Ltd. (BVI) who in turn was 100% held by Garden Fresh Group Holding Co., Ltd. (Cayman). The latter company has been designated as the proposed listed company for IPO purposes.
- @ In 2016, due to changes in the restructuring plans, Garden Fresh Group Co., Limited (Hong Kong-incorporated) which was initially designated as the proposed listed company has been replaced by another entity (Garden Fresh Group Holding Co., Limited (Cayman-incorporated) as the new proposed listed company) in February 2016. Accordingly, Garden Fresh Group Co., Limited changed its name to Grandness Group Co., Limited which is now 100% held by Grandness (HK) Industry Co., Limited.
- 1. The local auditor is Procon CPA Limited (博爾會計師有限公司).
- 2. The local auditor is Yun Cheng Huang He Certified Public Accountants Co., Ltd (运城黄河会计师事务所有限公司).
- 3. The local auditor is Shenzhen Yida Certified Public Accountants Co., Ltd (深圳市义达会计师事务所有限责任公司).
- 4. The local auditor is Sichuan Wan Bang Certified Public Accountants Co., Ltd (四川万邦会计师事务所).
- 5. The local auditor is Shan Dong He Hua United Public Accountants (山东荷华联合会计师事务所).
- 6. The local auditor is Yichang Tiancheng Certified Public Accountants Co., Ltd (宜昌天成会计师事务所有限公司).
- 7. Exempted from statutory audit as the subsidiary is dormant.
- 8. Audit is not required by law in the country of incorporation.

7 Amount owing by/(to) subsidiaries

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Company		
Amount owing by subsidiaries		
<u>Non-current and non-trade</u>		
Grandness (HK) Industry Co., Limited	517,203	304,688
Shanxi Yongji Huanxin Food Co., Ltd	31,000	-
Shenzhen Grandness Industry Groups Co., Ltd.	-	6,352
	548,203	311,040
Amount owing to subsidiaries		
<u>Non-current and non-trade</u>		
Shenzhen Grandness Industry Groups Co., Ltd.	(14,035)	-
	(14,035)	-

During the year, an amount of RMB 12.2 million was received from a subsidiary arising from the dividend declared by that subsidiary.

The non-trade amounts owing by/(to) subsidiaries are unsecured and interest-free. There are no fixed terms of repayment and accordingly, it is not practicable to determine the fair value of these amounts owing.

All amounts owing by/(to) subsidiaries are denominated in Renminbi.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

8 Deferred taxation

8(a) Deferred tax assets

	The Company		The Group	
	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Balance at beginning of year	-	-	1,654	1,678
Transfer to profit or loss	-	-	(1,654)	(24)
Balance at end of year	-	-	-	1,654
The balance comprises tax on				
- excess of tax written down value of qualifying property, plant and equipment over net book value	-	-	-	904
- others	-	-	-	750
To be recovered after one year	-	-	-	1,654

8(b) Deferred tax liabilities

	The Company		The Group	
	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Balance at beginning and end of year	20,241	20,241	20,241	20,241
The balance comprises tax on				
- undistributed earnings of subsidiaries	19,241	19,241	19,241	19,241
- unremitted income	1,000	1,000	1,000	1,000
To be settled after one year	20,241	20,241	20,241	20,241

Deferred tax liabilities of RMB 80.6 million (2015 - RMB 60.1 million) have not been recognised for withholding and other taxes that will be payable on the undistributed profits in accordance with the Group's accounting policies on income and deferred taxes of overseas subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

9 Deposits paid for non-current assets

	31 December 2016	31 December 2015
The Group	RMB'000	RMB'000
Advances to contractor for construction of workshop		
Balance at beginning of year	22,532	30,000
Additions	90,789	22,532
Transfer to property, plant and equipment on completion	(22,532)	(30,000)
Balance at end of year	90,789	22,532
Advances to suppliers for purchases of plant and machineries		
Balance at beginning of year	573,245	25,000
Additions	194,312	548,245
Refund *	(70,544)	-
Balance at end of year	697,013	573,245
Grand total	787,802	595,777

* The refund was due to the cancellation of contract with one of the suppliers for purchase of plant and machinery for Shanxi Yongji Huaxin Food Co., Ltd. during the financial year.

Deposits paid for non-current assets relate to advances paid to suppliers for the construction of factory and warehouse and plant and machineries, which upon completion, such amounts will be recorded as property, plant and equipment under non-current assets.

The deposits paid for non-current assets are unsecured and interest-free.

During the financial year 2016, the advances of RMB 90.8 million to contractor for construction of workshop relates to the construction of factory and warehouse on the existing land at Jing Yi Road East Side and Chen Zhuang Road North Side, Guzhen County, Bengbu City, Anhui Province, The People's Republic of China (安徽省蚌埠市固镇县经济开发区经一路东侧, 陈庄路北侧). This deposit was paid during the financial year.

During the financial year 2015, the advances of RMB 22.5 million to contractor for construction of workshop relates to the construction of factory and warehouse on the existing land at Jing Xiu Jiang Nan East Side, Guang Dong Road, Dang Yang City, The People's Republic of China (当阳市广州路(锦绣江南东侧)). As at 31 December 2016, the construction of workshop was completed and transferred to property, plant and equipment.

The advances of RMB 697.0 million (2015 - RMB 573.2 million) to suppliers for purchases of plant and machineries relates to the planned acquisition of new production lines for both the canned vegetables and canned fruits and fruit juices segments by the following subsidiaries:

	31 December 2016	31 December 2015
The Group	RMB'000	RMB'000
Shanxi Yongji Huaxin Food Co., Ltd.	83,000	70,544
Grandness (Shanxian) Food Co., Ltd.	81,390	80,550
Grandness (Anhui) Foods Co., Ltd.	71,840	71,840
Garden Fresh (Hubei) Food & Vegetable Beverage Co., Limited	213,983	103,511
Garden Fresh (Shenzhen) Food & Vegetable Beverage Co., Limited	246,800	246,800
	697,013	573,245

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

10 Inventories

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Finished goods, at cost	34,111	44,886
Packaging materials, at cost	6,765	6,950
Raw materials, at cost	3,628	2,852
	44,504	54,688
	2,013,908	1,900,055

Included in cost of sales are inventories charged of:

11 Trade receivables

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Trade receivables - external parties	1,153,722	954,052
Less: Impairment loss on trade receivables		
Balance at beginning of year	(154)	(154)
Allowance utilised	154	-
Balance at end of year	-	(154)
Net trade receivables	1,153,722	953,898

Trade receivables are usually due within 60 - 90 days and do not bear any interest. All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regards to trade receivables, as the amounts recognised resemble a large number of receivables from various customers. No additional allowance for impairment has been considered necessary.

(i) The age analysis of trade receivables neither past due nor impaired is as follows:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Current - neither past due nor impaired	790,608	854,284

(ii) The age analysis of trade receivables past due and not impaired is as follows:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Past due 0 to 3 months	363,114	99,614
Past due 3 to 6 months	-	-
Past due over 6 months	-	-
	363,114	99,614

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

11 Trade receivables (cont'd)

(iii) The age analysis of trade receivables past due and impaired is as follows:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Past due 0 to 3 months	-	-
Past due 3 to 6 months	-	-
Past due over 6 months	-	154
	<u>-</u>	<u>154</u>

(iv) The credit risk for trade receivables based on the information provided to key management is as follows:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
<u>By geographical areas</u>		
The People's Republic of China	1,007,974	782,529
Europe	136,330	160,250
North America	7,068	7,340
Others	2,350	3,779
	<u>1,153,722</u>	<u>953,898</u>

Impairment on trade receivables is made on specific debts for which the directors of the Group are of the opinion that debts are not recoverable.

12 Other receivables

	The Company		The Group	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to				
- contractor	-	-	5,457	-
- suppliers	-	-	108,860	90,936
- employees	60	41	424	1,230
- third parties	-	-	52,178	2,665
Prepayments	-	-	78,643	93,294
VAT receivable	-	-	109,258	90,949
Export tax refunds	-	-	99,220	93,375
Tax recoverable	-	-	25,812	2,116
Deposits	12	12	379	361
Guzhen (Anhui) Municipal Government (安徽固镇镇政府)	-	-	60	60
Others	63	61	766	477
	<u>135</u>	<u>114</u>	<u>481,057</u>	<u>375,463</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

12 Other receivables (cont'd)

Other receivables (excluding prepayments, taxes and advances to suppliers) are neither past due nor impaired.

The advances which are unsecured and interest-free are mainly made to:

- suppliers relating to the purchase of raw materials, packaging materials and finished goods; and
- employees pertaining to business purpose.

Prepayment includes prepaid advertisement expenses amounting to RMB 70.6 million (2015 - RMB 90.1 million) and prepaid Initial Public Offering ("IPO") expenses of a subsidiary, Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited, amounting to RMB 7.3 million (2015 - RMB 2.6 million) that relate solely to the equity offering.

VAT receivables relates to the percentage of qualifying purchases at the time the vendor invoice is processed.

Export tax refunds relate to tax refunds which is calculated at 15% (2015 - 15%) on overseas sales.

13 Cash and bank balances

	The Company		The Group	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	-	-	112	235
Bank balances	46,904	4,245	297,637	142,751
	46,904	4,245	297,749	142,986
Amount as shown above	-	-	297,749	142,986
Less: Deposits placed in banks for bank borrowings and notes payable (Note 18)	-	-	(165,881)	(30,647)
Cash and cash equivalents for consolidated statement of cash flows purposes at the end of the year	-	-	131,868	112,339

14 Share capital

	Number of shares		Amount	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
The Company and the Group	'000	'000	RMB'000	RMB'000
Issued and fully paid ordinary shares with no par value:				
Balance at beginning and end of year	673,344	673,344	440,948	440,948

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Subsequent to year end, the Company issued additional shares pursuant to its right issues in March 2017. Refer to Note 32 (b).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

15 Other reserves

	The Company		The Group	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Statutory common reserve</u>				
Balance at beginning of year	-	-	171,101	133,162
Movement during the year	-	-	40,335	37,939
Balance at end of year	-	-	211,436	171,101
<u>ESOS Scheme reserve</u>				
Balance at beginning of year	22,673	10,531	22,673	10,531
Movement during the year	27,174	12,142	27,174	12,142
Balance at end of year	49,847	22,673	49,847	22,673
<u>Merger reserve</u>				
Balance at beginning and end of year	-	-	(31,413)	(31,413)
Grand total	49,847	22,673	229,870	162,361

Statutory common reserve

According to the PRC Company Law, the subsidiaries in PRC are required to transfer between 10% and 50% of their profits after taxation to statutory common reserve until the common reserve balance reaches 50% of the registered capital. For the purpose of calculating the transfer to this reserve, the profits after taxation shall be the amount determined under the PRC accounting standards. The transfer to this reserve must be made before the distribution of dividends to shareholders.

Statutory common reserve can be used to make good previous years' losses and for conversion to capital, if any, provided that the balance remains not less than 25% of the registered capital.

ESOS Scheme reserve

ESOS Scheme reserve represents the equity-settled share options granted to employees (Refer to Note 25). The reserve is made up of the cumulative value of services received from employees recorded on grant of equity-settled share options.

Merger reserve

The merger reserve arises from the difference between the purchase consideration and the carrying value of the share capital acquired under the pooling-of-interests method of consolidation.

16 Trade payables

	The Company		The Group	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	1,662	-	23,815	18,609
Accruals	1,908	1,394	17,470	10,681
	3,570	1,394	41,285	29,290

The carrying amount of trade payables, due to their short duration, approximates their fair values. Accruals relate to liabilities for employee benefit costs and rental of warehouse and factory premises.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

17 Other payables

	The Company		The Group	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RMB'000	RMB'000	RMB'000	RMB'000
Amount owing to				
- contractors	-	-	11,594	1,226
- suppliers of property, plant and equipment	-	-	105	336
- suppliers	-	-	54	49
- employees	-	-	635	559
- third parties	5,554	2,699	6,402	3,833
Accrual of directors' fees	588	242	588	242
VAT and government tax payable	-	-	23,424	27,322
Withholding tax payable	199	199	898	287
Advance from customers	-	-	12	306
Deposits	-	-	147	123
Director of the Company	132,686	19,815	143,232	22,061
Others	61	59	236	698
	139,088	23,014	187,327	57,042

The carrying amount of other payables, due to their short duration, approximates their fair values.

The non-trade amounts owing are unsecured, interest-free and are repayable on demand:

- the amount owing to contractors relates to the road construction works, painting on the existing premises and construction of existing factory; and
- the amount owing to employees relates to money withheld for employees' uniform.

Included in other payables is a withholding tax payable of RMB 610,000 (2015 - Nil) relating to dividend paid by a subsidiary during the year.

The amount due to a director of the Company relates to amount due to Huang Yupeng, which is unsecured and interest-free. Included in the amount due to the director is an amount of RMB 111,333,667 (2015 - Nil) that was received on his behalf for the purpose of his subscription in the proposed right issues of the Company. Subsequent to the year end, RMB 111,333,667 was used to subscribe in the right issues of the Company on 13 March 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

18 Bank borrowings

The Group	Note	31 December 2016 RMB'000	31 Decembe 2015 RMB'000
Bank loans			
- 星展银行(中国)有限公司深圳分行	(a)	20,000	30,000
- 上海浦东发展银行股份有限公司深圳华侨城支行	(b)	28,500	30,000
- 上海浦东发展银行股份有限公司深圳华侨城支行	(c)	30,000	30,000
- 中信银行股份有限公司深圳分行	(d)	40,000	40,000
- 上海浦东发展银行股份有限公司深圳分行	(e)	30,000	-
- 上海浦东发展银行股份有限公司	(f)	65,208	-
- 渤海国际信托股份有限公司	(g)	50,000	-
- DEG - Deutsche Investitions - und Entwicklungsgesellschaft mbH	(h)	173,425	-
		437,133	130,000
Amount repayable:			
Not later than one year		263,708	130,000
Later than one year and not later than five years		173,425	-
		437,133	130,000

(a) The secured bank loan facility of RMB 60.0 million has been repaid on 14 December 2016. Additional RMB 20.0 million drawdown has been made during the year and is repayable on 14 June 2017. The loan was secured by inter-alia;

(i) a personal guarantee by a director of the Company, Huang Yupeng;

(ii) a corporate guarantee provided by a wholly-owned subsidiary, Shanxi Yongji Huaxin Food Co., Limited; and

(iii) a pledge of bank balances of RMB 9.22 million by a wholly-owned subsidiary, Shenzhen Grandness Industry Groups Co., Ltd.

Interest is charged at a rate between 5.44% and 5.85% (2015 - between 5.44% and 5.75%) per annum.

(b) The secured bank loan facility of RMB 28.5 million is repayable on 11 May 2017. The loan was secured by a pledge of bank balances of RMB 30.0 million by a wholly-owned subsidiary, Shenzhen Grandness Industry Groups Co., Ltd.

Interest is charged at 4.35% (2015 - at 6.70%) per annum.

(c) The secured bank loan facility of RMB 30.0 million is repayable on 10 May 2017. The loan was secured by inter-alia;

(i) a personal guarantee by a director of the Company, Huang Yupeng; and

(ii) the land use rights with a carrying amount of RMB 3.1 million and factory and warehouse premises with a carrying amount of RMB 42.0 million belonging to a subsidiary, Grandness (Sichuan) Foods Co., Ltd.

Interest is charged at 4.35% (2015 - at 6.42%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

18 Bank borrowings (cont'd)

- (d) The secured bank loan facility of RMB 40.0 million is repayable on 7 June 2017. The loan was secured by inter-alia;
- (i) a personal guarantee by a director of the Company, Huang Yupeng;
 - (ii) a corporate guarantee provided by a wholly-owned subsidiary, Grandness (Shanxian) Foods Co., Ltd;
 - (iii) the land use rights with a carrying amount of RMB 7.0 million and factory and warehouse premises with a carrying amount of RMB 100.4 million belonging to a subsidiary, Grandness (Sichuan) Foods Co., Ltd; and
 - (iv) housing properties with an approximated fair value of RMB 60.2 million belonging to a director of the Company, Huang Yupeng.

Interest is charged at 5.66% (2015 - at a rate between 5.14% and 5.89%) per annum.

- (e) The secured bank loan facility of RMB 30.0 million is repayable on 7 July 2017. The loan was secured by inter-alia;
- (i) a pledge of cash and bank balances of RMB 6.0 million of a wholly-owned subsidiary, Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited;
 - (ii) a personal guarantee by a director of the Company, Huang Yupeng; and
 - (iii) a corporate guarantee provided by a wholly-owned subsidiary, Garden Fresh (Hubei) Food & Beverage Co., Limited.

Interest is charged at 5.66% per annum.

- (f) The secured bank loan facility of USD 9.4 million (RMB 65.2 million) has been repaid on 3 January 2017. The loan was secured by a pledge of bank balances of RMB 70.0 million by a wholly-owned subsidiary, Shenzhen Grandness Industry Groups Co., Ltd.

Interest is charged at 2.16% per annum.

- (g) The secured bank loan facility of RMB 50.0 million has been repaid on 5 January 2017. The loan was secured by a pledge of cash and bank balances of RMB 50.66 million of a wholly-owned subsidiary, Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited.

Interest is charged at 1.62% per annum.

- (h) The secured loan facility of USD 25.0 million (RMB 173.425 million) is repayable within 6 years. As at the end of the reporting period, the applicable floating interest rate stood at 3.80% per annum over the applicable 6-month London Inter-Bank Offer Rate ("LIBOR").

The remaining loan commitment is repayable over 10 instalments semi-annually starting from 15 April 2018 with a fixed principal payment of USD 2,500,000 plus any applicable interest.

The loan was secured by inter-alia;

- (i) first ranking mortgage in the amount of USD 25.0 million (RMB 173,425 million) on its land and buildings belonging to a subsidiary, Garden Fresh (Hubei) Food & Beverage Co., Limited with the carrying amounts of RMB 41.5 million and RMB 215.1 million respectively;
- (ii) a pledge of equipment with a carrying amount of RMB 164.0 million belonging to a subsidiary, Garden Fresh (Hubei) Food & Beverage Co., Limited;
- (iii) a corporate guarantee provided by a wholly-owned subsidiary, Garden Fresh (Shenzhen) Fruit & Vegetable Beverage Co., Limited; and
- (iv) a corporate guarantee provided by the Company.

The effective interest rate of the term loan ranges from 4.50% to 5.06% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

19 Convertible loan

On 13 April 2016, the Company entered into a USD 20 million convertible loan agreement with Soleado Holdings Pte. Ltd, the conversion of which is subject to shareholders approval. The full amount had been disbursed to the Company on 17 May 2016 (closing date). The rate of interest payable on the loan shall be 12% per annum. Subject to the terms and conditions of the convertible loan agreement, the rate of interest payable shall be revised to 16.5% per annum if certain conditions are not satisfied. The loan shall be repaid in full 24 months from the closing date.

The convertible loan has been presented as a current liability as the Company has yet to convene a shareholders meeting to approve the conversion terms as of the date of this financial statements under which the lender has the right to demand repayment as of the year end. No demand has been made by Soleado Holdings Pte. Ltd. at the date of this financial statements. Notwithstanding, the Company is in the process of procuring the approval from SGX for the extraordinary general meeting to be held in this regard.

	31 December 2016 RMB'000
Transaction value	129,178
Adjusted for:	
At beginning of the year	-
Fair value gain on convertible loan at inception (Note 22(a))	(7,847)
Amortised interest cost (Note 22(d))	12,153
Interest repayment during the year	(8,327)
Exchange differences	9,503
At end of the year	5,482
	134,660

The fair value above is determined by an independent valuer, Jones Lang LaSalle Corporate and Appraisal Advisory Limited, discounted using an effective interest rate of 16.43% at 17 May 2016. The fair value is within Level 3 of the fair values hierarchy (Note 29.6).

20 Exchangeable/Convertible bonds including derivatives

	31 December 2016 RMB'000	31 December 2015 RMB'000
The Group		
2012 Convertible bonds	-	768,937
2011 Convertible bonds	-	263,993
Exchangeable bonds	527,663	-
	527,663	1,032,930
Current portion	527,663	1,032,930
Non-current portion	-	-
	527,663	1,032,930
Exchangeable bonds at fair value	527,663	-
Convertible bonds at amortised cost	-	703,324
Convertible bonds option derivatives	-	329,606
	527,663	1,032,930

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

20 Exchangeable/Convertible bonds including derivatives (cont'd)

As stated in the 2015 annual report of the Company, the convertible bonds had been restructured on 1 March 2016. Please refer to pages 87 to 101 in Note 21 of the 2015 annual report ("FY2015") of the Company for full details of the nature and original and revised terms and conditions of the convertible bonds ("Convertible Bonds") and restructured bonds ("Exchangeable Bonds").

As stated in FY2015, out of the 100% of the principal amount of the old convertible bonds, 60% of it had been refinanced into new Exchangeable Bonds that are convertible in the event of an Initial Public Offering ("IPO") while the remaining 40% was refinanced into a new Straight Bonds. The straight bonds amounting to RMB 193.4 million are accounted for as financial liabilities at amortised cost. On 31 March 2016, the Group had submitted an application to the Stock Exchange of Hong Kong ("HKSE") for the Proposed Listing of its subsidiary, Garden Fresh (HK) Fruit & Vegetable Beverage Co., Limited ("Garden Fresh (HK)" or "the issuer") including a draft prospectus as part of the HKSE listing application. As of the date of this financial statements, management is continuing efforts on the Proposed Listing.

Following the restructuring, the Bondholders may exchange 60% of the principal amount of the Convertible Bonds held by them respectively into new Garden Fresh Group Holding Co., Ltd ("Garden Fresh Cayman" or the listing vehicle) shares, and to restructure 40% of the principal amount of the Convertible Bonds held by them through the issuance of the 2011 SB1 Bonds, the 2011 SB2 Bonds, the 2012 SB1 Bonds and the 2012 SB2 Bonds to the respective Bondholders as follows:

Summary of the restructuring of principal amounts of Convertible Bonds on 1 March 2016

	2011 Convertible Bond RMB'000	2012 Convertible Bond RMB'000
60% Restructured exchangeable bonds	48,300	162,000
40% Straight bonds:		
SB1 Bonds due and repaid on 31 May 2016	12,075	40,500
SB2 Bonds	20,125	67,500
	80,500	270,000

Previously, under the original terms of the Convertible Bonds, the Bondholders may exchange their bonds into shares of the issuer, Garden Fresh (HK), which is the issuer of the Convertible Bonds. The Convertible Bonds had been determined and accounted for as a compound instrument under FRS 32 Financial Instruments: Presentation, whereby, the liability component was recognised initially at its fair value, determined using a market interest rate for equivalent non-convertible bonds and is subsequently carried at amortised cost using the effective interest method until the liability is extinguished on conversion or redemption of the bonds. The Convertible Bonds do not contain any equity component or equity instrument as the conversion option in the Convertible Bond is settled other than by the exchange of a fixed number of the issuer's own equity instruments (i.e. fixed for floating); the conversion option is a derivative liability and measured at its fair value at each reporting date. An amount of RMB 329.6 million is recorded as option derivatives at fair value and an amount of RMB 703.3 million is recorded as the liability component at amortised cost as at 31 December 2015.

In 2016, management has revisited the terms of the restructuring agreement of the Convertible Bonds. Under the restructuring, the holders of the Exchangeable Bonds have the option to convert their bonds into shares of Garden Fresh Cayman (the proposed listing vehicle), instead of converting into the shares that were issued by the issuer, Garden Fresh (HK). As there is no longer an equity element (i.e. since there is no conversion into shares of the issuer) under FRS 32 Financial Instruments: Presentation, and having satisfied that the new instrument meets the criteria under FRS 39 Financial Instruments: Measurement and Recognition, management has designated the Exchangeable Bonds as a hybrid instrument as a financial liability at fair value through profit or loss, and has measured it at its fair value, with changes in fair value recognised in profit or loss at each reporting date.

The valuation of the new Exchangeable Bonds as at 31 December 2016 was computed by an independent valuer, Jones Lang LaSalle Corporate and Appraisal Advisory Limited, based on the Binomial Option Pricing Model in deriving the fair value of the Exchangeable Bonds.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

20 Exchangeable/Convertible bonds including derivatives (cont'd)

The reconciliation of the original Convertible Bonds and the restructured Exchangeable Bonds is as follows:

Carrying amount

		RMB'000
Convertible bonds including option derivatives	31 December 2015	1,032,930
Exchangeable bonds	31 December 2016	527,663
Variance		<u>505,267</u>

Represented by:

	Gain on restructuring RMB'000 (Note 1)	Restructured into Straight Bonds RMB'000 (Note 1)	Changes in fair value (Gain on valuation) of Old Convertible Bond up to 1 March 2016 RMB'000 (Note 2)	Changes in fair value (Loss on valuation) of Exchangeable Bond up to 31 December 2016 RMB'000 (Note 3)	Variance RMB'000
The Group					
2012 Convertible Bond	(72,481)	(178,562)	(152,219)	6,409	(396,853)
2011 Convertible Bond	(19,137)	(101,802)	(23,277)	35,802	(108,414)
Total	<u>(91,618)</u>	<u>(280,364)</u>	<u>(175,496)*</u>	<u>42,211*</u>	<u>(505,267)</u>

The sum gives rise to the changes in fair value of the option derivatives in relation to Convertible Bonds.

Note 1: The valuation of the Convertible Bonds on the restructuring date (1 March 2016) is as follows:

	Old Convertible Bond on 1 March 2016 RMB'000	Restructured into Straight Bonds RMB'000	Restructured into Exchangeable Bonds RMB'000	Gain on restructuring RMB'000
The Group				
2012 Convertible Bond	616,718	178,562	365,675	72,481
2011 Convertible Bond	240,716	101,802	119,777	19,137
Total	<u>857,434</u>	<u>280,364</u>	<u>485,452</u>	<u>91,618</u>

Note 2: The movement for the old Convertible Bonds from 1 January 2016 to 1 March 2016 is as follows:

	Old Convertible Bond valuation on 1 March 2016 RMB'000	Old Convertible Bond valuation on 1 January 2016 RMB'000	Changes in fair value/(Gain on valuation) RMB'000
The Group			
2012 Convertible Bond	616,718	768,937	(152,219)
2011 Convertible Bond	240,716	263,993	(23,277)
Total	<u>857,434</u>	<u>1,032,930</u>	<u>(175,496)*</u>

* This include finance costs of RMB 20.0 million arising from the liability component.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

20 Exchangeable/Convertible bonds including derivatives (cont'd)

Note 3: The movement for the Exchangeable Bonds from 1 March 2016 to 31 December 2016 is as follows:

	Exchangeable Bond valuation on 31 December 2016	Exchangeable Bond valuation on 1 March 2016	Changes in fair value/Loss on valuation
The Group	RMB'000	RMB'000	RMB'000
2012 Convertible Bond	372,084	365,675	6,409
2011 Convertible Bond	155,579	119,777	35,802
Total	<u>527,663</u>	<u>485,452</u>	<u>42,211</u>

2011 SB2 Bonds and 2012 SB2 Bonds

As at 31 December 2016, the principal amount of the SB2 Bonds approximate to their fair values due to their short term nature and the details are as follows:

	Maturity date	Interest rate (per annum)	Principal amount RMB'000
<u>SB2 Bonds</u>			
2011 SB2 Bonds	12 months after the issue date	10%	20,125
2012 SB2 Bonds	12 months after the issue date	10%	67,500
Total			<u>87,625</u>

Maximum redemption amounts

- (i) The maximum cash payment in relation to the 2011 SB2 Bonds and 2012 SB2 Bonds due on 28 February 2017 is RMB 196.4 million.
- (ii) In the event that Garden Fresh Cayman fails to complete a Qualifying IPO before the Amended Maturity Date, Garden Fresh (HK) shall on the Amended Maturity Date redeem all of the outstanding bonds (other than any bonds in respect of which an exchange notice has been issued for exchange into shares) at the aggregate Redemption Amount 1 for 2011 Amended Bonds and Redemption Amount 2 for 2012 Amended Bonds. The bond redemption date will be at 12 months after the issuance date and the maximum redemption amount payable is approximately RMB 731.1 million (after deducting payments due for SB1 Bonds), calculated at interest rates of 25% per annum for 2011 Amended Bonds, 20% per annum for 2012 Amended Bonds and 10% per annum for 2011 SB2 Bonds and 2012 SB2 Bonds as follows:

	31 December 2016 Carrying amount RMB Million	28 February 2017 Redemption amount RMB Million
Exchangeable bonds	527.7	534.7
SB2 Bonds	193.4	196.4
	<u>721.1</u>	<u>731.1</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

21 Revenue

	Year ended 31 December 2016	Year ended 31 December 2015
	RMB'000	RMB'000
The Group		
Sale of		
- canned asparagus	300,245	324,735
- canned long beans	94,078	101,013
- canned mushrooms	140,208	150,628
- canned fruits	433,924	417,561
- snacks	10,139	915
- beverages	2,531,011	2,319,050
	<u>3,509,605</u>	<u>3,313,902</u>

22(a) Other operating income

		31 December 2016	31 December 2015
	Note	RMB'000	RMB'000
The Group			
Sales of scrap		23	19
Sales of raw materials and packaging materials		4,751	7,767
Cost of scrap		-	(87)
Cost of raw materials and packaging materials		<u>(4,950)</u>	<u>(5,264)</u>
		(176)	2,435
Government subsidy		230	859
Interest income - banks		1,795	1,999
Exchange gain	22(f)	16,691	21,681
Rental income		647	369
Gain on disposal of property, plant and equipment		4	58
Fair value gain on restructuring of Convertible Bond	20	91,618	-
Fair value gain at inception on Convertible Loan	19	7,847	-
Miscellaneous income		270	1,023
		<u>118,926</u>	<u>28,424</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

22(b) Distribution costs

The Group	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Employee benefit costs	22(e)	11,939	10,298
Freight charges	22(f)	218,517	190,730
Entertainment		292	316
Travelling		1,794	1,625
Consumable expenses		242	215
Packaging		6,819	12,038
Depreciation expenses	5(a)	3,701	3,070
Advertising expenses	22(f)	260,134	201,106
Promotional expenses	22(f)	256,061	150,013
Rental expenses	22(f)	23	114
Sample		39	18
Telephone expenses		178	136
Others		960	563
		760,699	570,242

22(c) Administrative expenses

The Group	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Amortisation of land use rights	4	2,392	1,174
Audit fees paid/payable to:			
- auditors of the Company	22(f)	1,822	1,588
- other auditors	22(f)	179	111
Other audit or review fees:			
- auditors of the Company	22(f)	-	-
- other auditors	22(f)	34	734
Bank charges		1,959	730
Consumable expenses		1,698	52
Directors' fee	22(f)	600	499
Depreciation expenses	5(a)	28,468	20,477
Employee benefit costs		22,001	23,483
Share-based payment expense under ESOS Scheme	22(e) & 22(f)	27,174	12,142
	22(e)	49,175	35,625
Entertainment		1,006	1,773
Exchange loss	22(f)	20,279	4,066
Government tax expenses		3,996	3,844
IPO expenses	22(f)	19,039	5,632
Motor vehicle expenses		309	480
Professional and legal fees		8,343	12,394
Advisory expenses		7,852	6,960
Rental expenses	22(f)	3,883	2,820
Repair and maintenance		492	16
Travelling expenses		2,055	2,073
Utilities		613	479
Withholding tax on dividends from a PRC subsidiary		610	-
Others		12,581	10,051
		167,385	111,578

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

22(d) Finance costs

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Interest expenses:		
- bank borrowings	11,772	4,496
- notes payable	-	3,561
Convertible bonds - liability component at amortised cost	19,950	218,939
Convertible loan - amortised cost	12,153	-
Account fee	1	-
	43,876	226,996
The effective interest rate per annum:		
- bank borrowings	1.62% - 5.85%	5.14% - 6.70%
- notes payable	N.A.	3.80% - 5.00%
- convertible bonds	17.27%	16.77%
- convertible loan (Note 19)	16.43%	N.A.

22(e) Employee benefit costs

		31 December 2016	31 December 2015
	Note	RMB'000	RMB'000
The Group			
Directors' remuneration:			
- salaries and related costs		11,111	10,755
- defined contributions		141	89
Key management personnel (other than directors):			
- salaries and related costs		2,832	5,990
- defined contributions		281	140
Other than directors and key management personnel:			
- salaries and related costs		36,708	39,219
- defined contributions		2,548	1,652
Share-based payment expense under ESOS Scheme	22(c) & 22(f)	27,174	12,142
		80,795	69,987
Employee benefit costs are charged to:			
Cost of sales		19,681	24,064
Distribution costs	22(b)	11,939	10,298
Administrative expenses	22(c)	49,175	35,625
		80,795	69,987

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

22(f) Profit before taxation

The Group	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Profit before taxation has been arrived at after charging/(crediting):			
Advertising expenses	22(b)	260,134	201,106
Amortisation of land use rights	4	2,392	1,174
Audit fees paid/payable to:			
- auditors of the Company	22(c)	1,822	1,588
- other auditors	22(c)	179	111
Other audit or review fees:			
- auditors of the Company	22(c)	-	-
- other auditors	22(c)	34	734
Depreciation of property, plant and equipment	5(a)	72,609	62,614
Changes in fair value of convertible bonds option derivatives	20	(175,496)	91,915
Changes in fair value of exchangeable bonds	20	42,211	-
Directors' fees	22(c)	600	499
Exchange loss/(gain) (net)	22(a) & 22(c)	3,588	(17,615)
Loss/(gain) on disposal of property, plant and equipment (net)		94	(58)
Freight charges	22(b)	218,517	190,730
IPO expenses	22(c)	19,039	5,632
Promotional expenses	22(b)	256,061	150,013
Rental expense:			
- factory and warehouse	22(c)	3,883	2,820
- others	22(b)	23	114
		3,906	2,934
Share-based payment expense under ESOS Scheme	22(c) & 22(e)	27,174	12,142

23 Taxation

The Group	31 December 2016 RMB'000	31 December 2015 RMB'000
Current taxation	160,774	194,553
Origination and reversal of temporary differences	-	24
	160,774	194,577

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

23 Taxation (cont'd)

The tax expense on the results of the financial year varies from the amount of income tax determined by applying the relevant statutory rate of income tax on Group's results as a result of the following:

	31 December 2016	31 December 2015
The Group	RMB'000	RMB'000
Profit before taxation	737,849	400,646
Tax at statutory rate of 25%	149,725	189,686
Tax at statutory rate of 17%	664	(3,527)
Tax at statutory rate of 16.5%	27,704	(53,450)
Tax effect on non-taxable income	(41,251)	(752)
Tax effect on non-deductible expenses	18,599	61,491
Deferred tax asset not recognised	2,568	1,242
Deferred tax asset transfer to profit or loss	1,654	-
Utilisation of deferred tax assets previously not recognised	(1,146)	-
Origination and reversal of temporary differences	-	24
Others	2,257	(137)
	160,774	194,577

Non-deductible expenses included in the tax reconciliation of the Group relate mainly to the amortised interest expenses and changes in fair values of option derivatives in relation to the convertible bonds which are not tax deductible.

Non-taxable income relates to certain types of income exempted from tax.

The Group has unabsorbed tax losses of certain subsidiaries amounting to approximately RMB 28.1 million (2015 - RMB 26.0 million), which are subject to agreement with the relevant tax authorities. These unabsorbed tax losses can be carried forward for offsetting against future taxable income provided that the provisions of the relevant tax legislations are complied with. These unabsorbed losses cannot be allowed to offset the taxable profits of other subsidiaries. All tax losses will expire after five years from the year of assessment they relate to.

The unrecognised tax losses will expire as follows:

	31 December 2016	31 December 2015
The Group	RMB'000	RMB'000
Year 2016	-	3,632
Year 2017	1,838	5,323
Year 2018	6,472	7,571
Year 2019	4,504	4,504
Year 2020	4,982	4,982
Year 2021	10,271	-
Total	28,067	26,012

Deferred tax assets have not been recognised in respect of the unutilised tax benefits of RMB 7.0 million (2015 - RMB 6.5 million) arising from these unabsorbed tax losses from certain subsidiaries because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

24 Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share amounts are calculated by dividing net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares at the beginning of the year or if later, the date of the issue of the potential ordinary shares.

For share options, the weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share options less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration. No adjustment is made to the net profit.

The following table reflects the consolidated statement of profit or loss and other comprehensive income and share data used in the computation of basic and diluted earnings per share for the financial years ended 31 December:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Net profit attributable to equity holders of the Company	577,551	206,673
	31 December 2016	31 December 2015
	No. of shares '000	
The Group		
Weighted average number of ordinary shares outstanding for the basic earnings per share	673,344	673,344
Adjustment for the effect of share options	6,896	2,471
Weighted average number of ordinary shares outstanding for the diluted earnings per share	680,240	675,815
	31 December 2016	31 December 2015
	RMB	RMB
The Group		
Basic earnings per share (cents)	85.8	30.7
Diluted earnings per share (cents)	84.9	30.6

Subsequent to the year end on 13 March 2017, the Company completed the rights issue (refer to Note 32(b)). In accordance with Singapore Financial Reporting Standards no.33 Earnings Per Share ("FRS 33"), as the rights issue arose after the reporting period but before the financial statements are authorised for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares, and the fact that per share calculation reflect such changes in the number of shares shall be disclosed. The restated basic earnings per share for financial year 2016 as well as its comparative figures are presented as below to account for the effect of the rights issue. In this presentation, the weighted average number of ordinary shares is increased by the number of rights shares as if the issuance took place at the start of the current year/period and comparative year/period.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

24 Earnings per share (cont'd)

	31 December 2016	31 December 2015
The Group	No. of shares '000	
Weighted average number of ordinary shares outstanding after rights issue under FRS 33 for the basic earnings per share	720,478	720,478
Weighted average number of ordinary shares outstanding after rights issue under FRS 33 for the diluted earnings per share	727,857	723,122
The Group	RMB	RMB
Basic earnings per share (cents)	80.2	28.7
Diluted earnings per share (cents)	79.4	28.6

25 Employee share option scheme (the "ESOS Scheme")

	Weighted average exercise options 2016 '000	Options price 2016 SGD	Weighted average exercise options 2015 '000	Options price 2015 SGD
Outstanding at the beginning of year	26,100	0.39	16,160	0.60
Granted	14,514	0.61	18,190	0.29
Forfeited	(1,000)	0.26	(1,100)	0.57
Renounced	(8,810)	0.60	(7,150)	0.60
Expired	-	-	-	-
Exercised	-	-	-	-
Outstanding at end of the year	30,804	0.43	26,100	0.39
Exercisable at year end	6,995	0.33	1,101	0.60

Fair value of share options granted

The fair value of share options as at the date of grant, is estimated by an external valuer using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The inputs to the option pricing model used for the year ended 31 December 2016 are shown below.

	2016	2015
Weighted average share price	SGD 0.45	SGD 0.47
Weighted average exercise price	SGD 0.43	SGD 0.39
Expected volatility	53.30%	48.664%
Expected option life	6.5 - 8.0 years	6.5 - 8.0 years
Risk-free rate	2.08%	2.137%
Expected dividend yield	0%	0%
Fair value at measurement date	SGD 0.614 (RMB 2.947)	SGD 0.346 (RMB 1.563)

The expected life of the share options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Other than stated, no other features of the option grant were incorporated into the measurement of fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

26 Related party transaction

In relation to the related party information disclosed elsewhere in the financial statements, the following are significant transactions with related parties:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		(Restated)
Convertible loan obtained from a related party	134,660	-
Interest accrued on a convertible loan from a related party	8,327	-
Advisory fee payable/paid to a related party	7,852	6,960

The related party refers to the PM Group of Companies under which the non-executive director, Chalermchai Mahagitsiri is a common director and meets the definition of a related party despite being a common director under FRS 24 Related Party Disclosures. Management has reassessed that the related party transaction with the PM Group had commenced in 2015 and accordingly disclosed it therein. The restatement for 2015 related party transactions did not have a significant impact to the financial statements.

27 Commitments

(i) Operating lease commitment (non-cancellable)

(A) Where Group is the lessee

At the end of the reporting period, the Group was committed to making the following lease rental payment under non-cancellable operating leases for factory, warehouse and office premises:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Not later than one year	2,955	4,237
Later than one year and not later than five years	991	3,748
Later than five years	738	937

The current rents payable on the leases on the Group's factory, warehouse and office premises per annum are as follows:

<u>Location</u>	<u>Land area (sq m)/Unit</u>	<u>Effective date</u>	<u>Expiry date</u>	<u>Rental per annum (RMB'000)</u>
<u>Factory and warehouse premises</u>				
山西省永济市南郊粮库内	1,909.41	1 January 2008	31 December 2026	168
山西省永济市于乡镇	13,049.40	1 August 2014	31 July 2017	2,325
山西省永济市蒲州老城内部	44,200.22	20 November 2015	19 November 2025	30
<u>Office premises</u>				
深圳福田区滨河路与彩田路 交汇处联合广场A栋塔楼	A5601, A5603 and A5607 - 09	28 April 2014	27 April 2017	1,714

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

27 Commitments (cont'd)

(i) Operating lease commitment (non-cancellable) (cont'd)

(B) Where Group is the lessor

At the end of reporting period, the Group had the following rental income under non-cancellable lease for factory and warehouse premises with a term of more than one year:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Not later than one year	50	50
Later than one year and not later than five years	150	200
Later than five years	-	-

The current rents receivable on the leases on the Group's factory and warehouse premises per annum are as follows:

<u>Location</u>	<u>Land area (sq m)/Unit</u>	<u>Effective date</u>	<u>Expiry date</u>	<u>Rental per annum (RMB'000)</u>
<u>Factory and warehouse premises</u>				
山西省永济市南郊粮库后门	12,800.00	1 November 2012	31 October 2020	50

(ii) Capital commitments

The Group's capital commitments contracted but not provided for in the consolidated financial statements are as follows:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Expenditure contracted for the construction of:		
- production plant ^(a)	123,834	256,034
- factory plant	35,775	58,978
- equipment	120,990	107,351
- patent	10,800	-
	291,399	422,363

- (a) In financial year 2013, the Group has entered into a Cooperation Agreement with Guzhen (固镇) Municipal Government of Anhui Province, PRC whereby the Group principally agreed to invest RMB 600.0 million to construct a production plant to produce canned products and beverages. The investment cost would be executed in 3 phases whereby construction work was commenced in 2014 and expected to be completed by December 2017. The aggregate cost incurred as at 31 December 2016 was RMB 476.17 million (2015 - RMB 343.97 million)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

28 Statement of operations by segments

For management purposes, the Group is organised into business units based on their products and services, and has two reportable segments as follows:

- (1) Manufacturing and sale of canned vegetables and canned fruits (“Grandness segment”); and
- (2) Sales of fruit juices (“Garden Fresh segment”).

The manufacturing arm and the distribution arm are regarded as one line business for segmental reporting.

Insofar as to the analysis of major customers, the Group does not have a single customer whose revenue reports 10% of the Group’s total revenue.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as set out in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Group’s income taxes are managed on a group basis and are not allocated to operating segments.

Allocation basis and transfer pricing

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income tax expense and non-controlling interests.

Transfer prices between operating segments are on an arm’s length basis in a manner similar to transaction with third parties, if any.

All non-current assets are located in the People’s Republic of China.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

28 Statement of operations by segments (cont'd)

(a) Business segments

	Canned vegetable and fruits		Fruit beverages		Total	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE						
Total sales	978,591	994,852	2,531,014	2,319,050	*3,509,605	*3,313,902
RESULTS						
Segment result	118,098	173,446	530,342	546,111	648,440	719,557
Finance costs	(18,088)	(5,227)	(25,788)	(221,769)	(43,876)	(226,996)
Changes in fair value of option derivatives in relation to convertible bonds	-	-	133,285	(91,915)	133,285	(91,915)
Profit before taxation	100,010	168,219	637,839	232,427	737,849	400,646
Taxation					(160,774)	(194,577)
Non-controlling interests	476	604	-	-	476	604
Net profit					577,551	206,673
OTHER INFORMATION						
Segment assets (excluding taxation and deposits paid for non-current assets)	1,492,029	1,184,480	1,673,419	1,394,746	3,165,448	2,579,226
Segment liabilities (excluding taxation)	505,992	163,682	1,015,492	1,141,080	1,521,484	1,304,762
Capital expenditure						
- Property, plant and equipment	127,235	136,059	84,135	42,171	211,370	178,230
Amortisation of land use rights	1,476	249	925	925	2,392	1,174
Depreciation of property, plant and equipment	31,974	24,972	40,635	37,642	72,609	62,614
Deposits paid for non-current assets	327,019	222,934	460,783	372,843	787,802	595,777

* There were no inter-segment transactions during the financial year.

During the year, segment assets have been disclosed separately from the deposits paid for non-current assets to distinguish the latter as part of capital expenditure incurred. Comparative figures have been similarly restated. The restatement did not have a significant impact to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

28 Statement of operations by segments (cont'd)

(b) Geographical segments

The following table shows the distribution of the Group's sales based on geographical location of customers:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Revenue		
- Europe	427,853	534,816
- North America	31,765	30,244
- The People's Republic of China	2,974,240	2,738,454
- Others	75,747	10,388
	<u>3,509,605</u>	<u>3,313,902</u>

There is no individual foreign country in Europe which is considered significant to be disclosed.

No geographical information is provided as the non-current assets employed by the Group are located in the PRC.

(c) Reconciliation of segments' total assets and total liabilities

	31 December 2016	31 December 2015
	RMB'000	RMB'000
The Group		
Reportable segments' assets are reconciled to total assets:		
Segment assets	3,953,250	3,175,003
Deferred tax assets	-	1,654
	<u>3,953,250</u>	<u>3,176,657</u>
Reportable segments' liabilities are reconciled to total liabilities:		
Segment liabilities	1,521,484	1,304,762
Deferred tax liabilities	20,241	20,241
Current tax payables	9,622	41,800
	<u>1,551,347</u>	<u>1,366,803</u>

29 Financial risk management objectives and policies

The Group does not have written risk management policies and guidelines. The Board of Directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. The Group does not hold or issue derivative financial instruments for trading purposes.

As at 31 December 2016 and 31 December 2015, the Group's financial instruments mainly consisted of cash and bank balances, financial assets and financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29 Financial risk management objectives and policies (cont'd)

29.1 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group operates and sells its products in several countries other than PRC and transacts in foreign currencies. As a result, the Group is exposed to movements in foreign currency exchange rates arising from normal trading transactions, primarily with respect to United States Dollar. However, the Group does not use any financial derivatives such as foreign currency forward contracts, foreign currency options or swaps for hedging purposes.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the SGD and USD exchange rates (against RMB), with all other variables held constant, of the Group's profit net of tax and equity.

		31 December 2016		31 December 2015	
		RMB'000		RMB'000	
		Profit net of tax	Equity	Profit net of tax	Equity
SGD	- strengthened 5% (2015 - 5%)	3,176	3,176	1,451	1,451
	- weakened 5% (2015 - 5%)	(3,176)	(3,176)	(1,451)	(1,451)
USD	- strengthened 5% (2015 - 5%)	8,332	8,332	9,123	9,123
	- weakened 5% (2015 - 5%)	(8,332)	(8,332)	(9,123)	(9,123)

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

Cash and bank balances are denominated in the following currencies:

	Note	The Company		The Group	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		RMB'000	RMB'000	RMB'000	RMB'000
United States Dollars		9	-	70,121	9,583
Renminbi		-	-	178,859	94,834
Singapore Dollars		46,895	4,245	46,941	34,677
Others		-	-	1,828	3,892
	13	46,904	4,245	297,749	142,986

Trade receivables are denominated in the following currencies:

	Note	The Company		The Group	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		RMB'000	RMB'000	RMB'000	RMB'000
United States Dollars		-	-	145,747	171,369
Renminbi		-	-	1,007,975	782,529
	11	-	-	1,153,722	953,898

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29 Financial risk management objectives and policies (cont'd)

29.1 Foreign currency risk (cont'd)

Other receivables are denominated in the following currencies:

	Note	The Company		The Group	
		31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Renminbi		35	42	473,800	373,140
United States Dollars		-	-	5,357	1,531
Others		100	72	1,900	792
	12	135	114	481,057	375,463

Trade payables are denominated in the following currencies:

	Note	The Company		The Group	
		31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Renminbi		-	-	37,716	27,896
Singapore Dollars		1,662	1,394	1,661	1,394
United States Dollars		1,908	-	1,908	-
	16	3,570	1,394	41,285	29,290

Other payables are denominated in the following currencies:

	Note	The Company		The Group	
		31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Renminbi		20,961	19,090	69,200	52,684
Singapore Dollars		108,908	3,924	108,908	4,326
United States Dollars		9,219	-	9,219	32
	17	139,088	23,014	187,327	57,042

Bank borrowings are denominated in the following currencies:

	Note	The Company		The Group	
		31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Renminbi		-	-	198,500	130,000
United States Dollars		-	-	238,633	-
	18	-	-	437,133	130,000

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29 Financial risk management objectives and policies (cont'd)

29.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Company's and the Group's financial instrument will fluctuate because of the changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from their bank borrowings, straight bonds and exchangeable bonds.

The table below analyses the maturity profile of the Company's and the Group's financial instruments that are exposed to interest rate risk:

The Company	Within 1 year RMB'000	1-2 years RMB'000	2-3 years RMB'000	More than 3 years RMB'000	Total RMB'000
31 December 2016					
Fixed rate					
Convertible loan	134,660	-	-	-	134,660
Floating rate					
Cash and bank balances	46,904	-	-	-	46,904
31 December 2015					
Floating rate					
Cash and bank balances	4,245	-	-	-	4,245
The Group					
31 December 2016					
Fixed rate					
Exchangeable bonds	527,663	-	-	-	527,663
Straight bonds	193,416	-	-	-	193,416
Convertible loan	134,660	-	-	-	134,660
Bank borrowings	50,000	-	-	-	50,000
Notes payable	-	-	-	-	-
Floating rate					
Bank borrowings	213,708	34,685	34,685	104,055	387,133
Cash and bank balances	297,749	-	-	-	297,749
31 December 2015					
Fixed rate					
Convertible bonds including derivatives	1,032,930	-	-	-	1,032,930
Notes payable	55,500	-	-	-	55,500
Floating rate					
Bank borrowings	130,000	-	-	-	130,000
Cash and bank balances	142,986	-	-	-	142,986

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29 Financial risk management objectives and policies (cont'd)

29.2 Interest rate risk (cont'd)

Sensitivity analysis for interest rate risk

Interests on financial instruments subject to floating interest rates are contractually repriced at intervals of less than one month. Interests on financial instruments at fixed rates are fixed until the maturity of the instrument. The other financial instruments of the Company and the Group that are not included in the above tables are not subject to interest rate risks.

At the end of reporting period, if interest rates (other than for convertible bonds - Refer to Note 20 and Note 2 critical accounting estimates and key sources of estimation uncertainty on fair value of convertible bonds) had been 20 (2015 - 20) basis points lower/higher with all other variables held constant, the Group's profit net of tax would have been RMB 0.8 million (2015 - RMB 0.3 million) lower/higher, arising mainly as a result of higher/lower interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

29.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Company or the Group to incur a financial loss. The Group's exposure to credit risk arises primarily from trade receivables. For trade receivables, the Group adopt the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. The five (2015 - five) largest debtors accounted about 6.7% (2015 - 8.0%) of the total receivables at year end. For other financial assets, the Company and the Group adopt the policy of dealing only with high credit quality counterparties.

The Company's and the Group's objective is to seek continual growth while minimising losses incurred due to increased credit risk exposure.

Exposure to credit risk

As the Company and the Group do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statements of financial position.

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. The Company is not exposed to credit risk in respect of the intra-group financial guarantee at the reporting date for both financial year ended 31 December 2016 and 31 December 2015.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the product sector profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the end of the reporting period is as follows:

	31 December 2016		31 December 2015	
	RMB'000	% of total	RMB'000	% of total
The Group				
By product sectors:				
Canned foods	335,294	29%	358,606	38%
Beverages	818,428	71%	595,292	62%
	1,153,722	100%	953,898	100%

Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and bank balances and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29 Financial risk management objectives and policies (cont'd)

29.3 Credit risk (cont'd)

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 11 (Trade receivables).

29.4 Liquidity risk

Liquidity or funding risk is the risk that the Company or the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or other financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Company's and the Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company's and the Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. Refer to Note 2(a) on significant judgements on convertible bonds repayment.

The table below analyses the maturity profile of the Company's and the Group's financial liabilities based on contractual undiscounted cash flows over the remaining contractual maturities:

	Less than 1 year RMB'000	Between 1 to 5 years RMB'000	Total RMB'000
The Company			
As at 31 December 2016			
Trade payables	3,570	-	3,570
Other payables	138,889	-	138,889
	142,459	-	142,459
As at 31 December 2015			
Trade payables	1,394	-	1,394
Other payables	22,815	-	22,815
	24,209	-	24,209
The Group			
As at 31 December 2016			
Bank borrowings	272,560	196,278	468,838
Trade payables	41,285	-	41,285
Other payables	163,005	-	163,005
Straight bonds	196,419	-	196,419
Exchangeable bonds	534,739	-	534,739
	1,208,008	196,278	1,404,286
As at 31 December 2015			
Bank borrowings	130,000	-	130,000
Trade payables	29,290	-	29,290
Other payables	29,127	-	29,127
Convertible bonds including derivatives	703,125	-	703,125
Notes payable	55,500	-	55,500
	947,042	-	947,042

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For the financial year ended 31 December 2016

29 Financial risk management objectives and policies (cont'd)

29.4 Liquidity risk (cont'd)

The carrying amount of current borrowing approximates their fair values. The carrying amount and the fair values are disclosed as follows:

	31 December 2016 Carrying amount RMB'000	31 December 2016 Fair values RMB'000	31 December 2015 Carrying amount RMB'000	31 December 2015 Fair values RMB'000
The Group				
<u>Variable interest rate loans</u>				
Less than one year	263,708	263,708	130,000	130,000
Between one to five years	173,425	173,425	-	-
	437,133	437,133	130,000	130,000

The fair values are determined from the discounted cash flows analysis, using a discount rate based on the borrowing rate which the directors expect would be available to the Group at the end of the reporting period. No adjustment has been made to fair values as the differences between the carrying amounts and fair values are not significant to the Group.

Pursuant to the proposed renounceable non-underwritten rights issue in the capital of the Company dated 13 December 2016, on 13 March 2017, all 306,065,830 rights shares were allotted and issued by the Company and the gross proceeds raised from the rights issue are approximately SGD 64.27 million (approximately RMB 312.7 million). The utilisation of the net proceeds from the proposed rights issue will be based on the following allocation - 60% on capital expenditure for the Group's non-beverage business and 40% on distribution network expansion and general working capital.

The unutilised banking credit facility of the Group at 31 December 2016 and 28 February 2017 are as follows:

	28 February 2017 RMB Million	31 December 2016 RMB Million
The Group		
Unutilised bank credit facility	482.49	307.28

As at 10 March 2017, the Group further secured a new bank credit facility of RMB 100 million, thereby increasing the aggregate amount of untapped bank credit facility of the Group to RMB 582.49 million.

29.5 Market price risk

The Group does not hold any quoted or marketable financial instrument, hence it is not exposed to any movement in market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29 Financial risk management objectives and policies (cont'd)

29.6 Fair value measurements

The table below presents assets and liabilities measured and carried at fair value and classified by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) 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) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

See Note 20 for disclosure of the convertible bonds that are measured at fair value.

The Group	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
2016				
Liabilities				
Exchangeable bonds	-	-	527,663	527,663
2015				
Liabilities				
Option derivatives in relation to convertible bonds	-	-	329,606	329,606

There were no transfers between Levels 1 and 2 during the year.

NOTES TO THE FINANCIAL STATEMENTS

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29 Financial risk management objectives and policies (cont'd)

29.6 Fair value measurements (cont'd)

Level 3 fair value measurements

(a) Information about significant unobservable inputs used in Level 3 fair value measurements

The following table shows the information about fair value measurements using observable market data (Level 3):

Description	Fair value as at 31 December RMB'000	Valuation techniques	Unobservable inputs	Range
2016				
Fair value measurement of exchangeable bonds	527,663	Binomial Option Pricing Model	Revised redemption return Discount rate	20% - 25% 17.27%
			Expected volatility Dividend yield	27.05% 0%
Fair value measurement of convertible loan at inception	134,660	Cash flow of the convertible loan at its corresponding discount rate	Discount rate	16.43%
	662,323			
2015				
Effect of cash flow on amortised cost of convertible bonds	703,324	Cash flow of the convertible bonds at their corresponding discount rates	Revised redemption return Discount rate	20% - 25% 16.77%
Recurring fair value measurement of option derivatives in relation to convertible bonds	329,606	Binomial Option Pricing Model	Expected volatility Dividend yield	51.70% 0%
	1,032,930			

(b) Movements in Level 3 assets and liabilities measured at fair value

Please refer to Note 20 for the movement of convertible bonds.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29 Financial risk management objectives and policies (cont'd)

29.6 Fair value measurements (cont'd)

Level 3 fair value measurements (cont'd)

(c) Valuation policies and procedures

The Group's Chief Financial Officer ("CFO"), who is assisted by the financial controllers (collectively referred to as the "CFO office") oversees the Group's financial reporting valuation process and is responsible for setting and documenting the Group's valuation policies and procedures. In this regard, the CFO office reports to the Audit Committee.

For all significant financial reporting valuations using valuation models and significant unobservable inputs, it is the Group's policy to engage external valuation experts who possess the relevant credentials and knowledge on the subject of valuation, valuation methodologies and FRS 113 Fair Value Measurement guidance to perform the valuation.

For valuations performed by external valuation experts, the appropriateness of the valuation methodologies and assumptions adopted are reviewed along with the appropriateness and reliability of the inputs (including those developed internally by the Group) used in the valuations.

In selecting the appropriate valuation models and inputs to be adopted for each valuation that uses significant non-observable inputs, external valuation experts are requested to calibrate the valuation models and inputs to actual market transactions (which may include transactions entered into by the Group with third parties as appropriate) that are relevant to the valuation if such information are reasonably available. For valuations that are sensitive to the unobservable inputs used, external valuation experts are required, to the extent practicable to use a minimum of two valuation approaches to allow for cross-checks.

Significant changes in fair value measurements from period to period are evaluated for reasonableness. Key drivers of the changes are identified and assessed for reasonableness against relevant information from independent sources, or internal sources if necessary and appropriate.

The CFO office documents and reports its analysis and results of the external valuations to the Audit Committee on a quarterly basis. The Audit Committee performs a high-level independent review of the valuation process and results and recommends if any revisions need to be made before presenting the results to the Board of Directors for approval.

30 Capital management

The primary objectives of the Company's and Group's capital management are to ensure that it maintains a strong credit rating and to maintain an optimal capital structure to support its business and maximise shareholder value.

The Company and the Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company and the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares or convertible loan. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

The Company and the Group are not subject to externally imposed capital requirement.

The Company and the Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's and the Group's goal in capital management is to maintain a capital to overall financing structure ratio of between 20% - 50%. Net debt is calculated as the sum of trade payables, other payables, notes payable, bank borrowings and convertible bonds including option derivatives less cash and bank balances.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

30 Capital management (cont'd)

	Note	The Company		The Group	
		31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Trade payables	16	3,570	1,394	41,285	29,290
Other payables	17	139,088	23,014	187,327	57,042
Notes payable		-	-	-	55,500
Bank borrowings - Long term	18	-	-	173,425	-
Bank borrowings - Short term	18	-	-	263,708	130,000
Exchangeable bonds	20	-	-	527,663	-
Convertible bonds including derivatives	20	-	-	-	1,032,930
Convertible loans	19	134,660	-	134,660	-
Straight bonds	20	-	-	193,416	-
Less: Cash and bank balances	13	(46,904)	(4,245)	(297,749)	(142,986)
Net debt		230,414	20,163	1,223,735	1,161,776
Equity attributable to the equity holders of the Company		369,653	331,855	2,399,735	1,807,210
Capital and net debt		600,067	352,018	3,623,470	2,968,986
Gearing ratio		38%	6%	34%	39%

31 Financial instruments

31.1 Fair values

The carrying amount of financial assets and financial liabilities with a maturity of less than one year is assumed to approximate their fair values. The fair value of convertible bonds is disclosed in Note 20.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

31 Financial instruments (cont'd)

31.2 Accounting classifications of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities in each category were as follows:

The Company	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Financial assets			
Loans and receivables:			
Amount owing by subsidiaries	7	548,203	311,040
- Advances to employees	12	60	41
- Deposits	12	12	12
- Others	12	63	61
Cash and bank balances	13	46,904	4,245
		595,242	315,399
Financial liabilities at amortised cost			
Trade payables	16	1,662	-
Accruals	16	1,908	1,394
Other payables:			
- Amount owing to third parties	17	5,554	2,699
- Accrual of directors' fees	17	588	242
- Director of the Company	17	132,686	19,815
- Others	17	61	59
		142,459	24,209

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

31 Financial instruments (cont'd)

31.2 Accounting classifications of financial assets and financial liabilities (cont'd)

The Group	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Financial assets			
Loans and receivables:			
- Net trade receivables	11	1,153,722	953,898
- Advances to contractor	12	5,457	-
- Advances to supplier	12	108,860	90,936
- Advances to employees	12	424	1,230
- Advances to third parties	12	57,178	2,665
- Deposits	12	379	361
- Others	12	766	477
Cash and bank balances	13	297,749	142,986
		1,624,535	1,192,553
Financial liabilities at amortised cost			
Trade payables	16	23,815	18,609
Accruals	16	17,470	10,681
Other payables:			
- Amount owing to contractors	17	11,594	1,226
- Amount owing to suppliers of property, plant and equipment	17	105	336
- Amount owing to suppliers	17	54	49
- Amount owing to employees	17	635	559
- Amount owing to third parties	17	6,402	3,833
- Accrual of directors' fees	17	588	242
- Advance from customers	17	12	306
- Deposits	17	147	123
- Director of the Company	17	143,232	22,061
- Others	17	236	698
Notes payable		-	55,500
Borrowings	18	437,133	130,000
Convertible loan at amortised cost	19	134,660	-
Straight bonds at amortised cost	20	193,416	-
Convertible bonds at amortised cost	20	-	703,324
		969,499	947,547
Financial liabilities at fair value			
Exchangeable bonds at fair value through profit or loss	20	527,663	-
Convertible bonds option derivatives at fair value	20	-	329,606
		527,663	329,606

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

32 Events after end of reporting period

- (a) In view of the expiry of the straight bonds and the exchangeable bonds on 28 February 2017, the Group has been re-negotiating with the bondholders on its settlement and/or new restructuring terms and conditions.
- (b) Pursuant to the proposed renounceable non-underwritten rights issue in the capital of the Company dated 13 December 2016, on 13 March 2017, all 306,065,830 rights shares were allotted and issued by the Company and the gross proceeds raised from the rights issue were approximately SGD 64.27 million (approximately RMB 312.7 million).
- (c) Following the completion of the rights issue, adjustments are made to the maximum conversion price of the Soleado conversion option pertaining to the convertible loan transaction entered into between Soleado Holdings Pte Ltd ("Soleado") and Sino Grandness Food Industry Group Limited on 13 April 2016. The maximum conversion price of SGD 0.55 per new share shall now be adjusted to SGD 0.44 per new share. The maximum number of new shares to be allocated and issued to Soleado is capped at 72,727,272 new shares. There will be no adjustment to the floating conversion price arising from the rights issue.

STATISTICS OF SHAREHOLDINGS

As at 16 March 2017

Class of Equity Securities	Number of Equity Securities	Voting Rights
Ordinary Shares	979,410,658	One vote per share (excluding treasury shares and subsidiary holdings)
Treasury Shares	Nil	Nil

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS AS AT 16 MARCH 2017

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 99	8	0.30	115	0.00
100 - 1,000	37	1.37	24,921	0.00
1,001 - 10,000	678	25.15	4,248,601	0.43
10,001 - 1,000,000	1,920	71.22	159,133,905	16.25
1,000,001 and above	53	1.96	816,003,116	83.32
Total	2,696	100.00	979,410,658	100.00

TWENTY LARGEST SHAREHOLDERS AS AT 16 MARCH 2017

	NAME OF SHAREHOLDER	NO. OF SHARES	%
1	RAFFLES NOMINEES (PTE) LTD	417,678,646	42.65
2	SOLEADO HOLDINGS PTE LTD	81,450,857	8.32
3	HL BANK NOMINEES (S) PTE LTD	54,244,103	5.54
4	CITIBANK NOMINEES SINGAPORE PTE LTD	38,380,436	3.92
5	DBSN SERVICES PTE LTD	28,278,236	2.89
6	DBS NOMINEES PTE LTD	24,828,220	2.54
7	UOB KAY HIAN PTE LTD	18,610,951	1.90
8	MAYBANK KIM ENG SECURITIES PTE LTD	14,763,730	1.51
9	BNP PARIBAS NOMINEES SINGAPORE PTE LTD	13,177,308	1.35
10	OCBC SECURITIES PRIVATE LTD	8,009,188	0.82
11	CIMB SECURITIES (SINGAPORE) PTE LTD	7,916,961	0.81
12	UNITED OVERSEAS BANK NOMINEES PTE LTD	7,907,388	0.81
13	PHILLIP SECURITIES PTE LTD	7,490,038	0.76
14	CHIA KEE KOON	6,768,000	0.69
15	SEAH KOK BENG	6,553,000	0.67
16	DB NOMINEES (S) PTE LTD	5,670,152	0.58
17	DBS VICKERS SECURITIES (S) PTE LTD	5,516,052	0.56
18	CHAN KONG HON	4,778,181	0.49
19	TAN CHENG GUAN	4,550,000	0.46
20	OCBC NOMINEES SINGAPORE PTE LTD	3,705,852	0.38
	TOTAL:	760,277,299	77.65

STATISTICS OF SHAREHOLDINGS

As at 16 March 2017

LIST OF SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Huang Yupeng	348,024,087	35.53	-	-
Chalermchai Mahagitsiri	-	-	130,488,508 ¹	13.32
Soleado Holdings Pte. Ltd.	93,544,559	9.55	-	-
Thoresen Thai Agencies Public Company Limited	-	-	93,544,559 ²	9.55

Note:

- 1 Deemed interest arises from shares held by Soleado Holdings Pte. Ltd. and PM Group Company Limited
- 2 Deemed interest arises from shares held by Soleado Holdings Pte. Ltd.

The percentage of shareholding above is computed based on the total issued shares of 979,410,658.

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Based on information available to the Company as at 16 March 2017, approximately 48.25% of the Company's shares listed on the Singapore Exchange Securities Trading Limited were held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of SINO GRANDNESS FOOD INDUSTRY GROUP LIMITED (“the Company”) will be held at Room 304, Level 3 Suntec Singapore Convention & Exhibition Centre 1 Raffles Boulevard, Suntec City Singapore 039593 on Tuesday, 25 April 2017 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors’ Statement and the Audited Financial Statements of the Company and the Group for the financial year ended 31 December 2016 together with the Auditors’ Report thereon. **(Resolution 1)**
2. To re-elect the following Directors of the Company retiring pursuant to the Constitution of the Company:

Mr Zeng Ming	(Retiring under Regulation 91)	(Resolution 2)
Mr Huang Yupeng	(Retiring under Regulation 91)	(Resolution 3)
Mr Chalermchai Mahagitsiri	(Retiring under Regulation 91)	(Resolution 4)

[See Explanatory Note (i)]
3. To approve the payment of Directors’ fees of S\$145,000 for the financial year ending 31 December 2017 to be paid half-yearly in arrears. (2016: S\$145,000) **(Resolution 5)**
4. To re-appoint Foo Kon Tan LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 6)**
5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. **Authority to issue shares in the capital of the Company pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited**

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”), the Directors of the Company be authorised and empowered to:

- (a) (i) issue shares in the Company (“shares”) whether by way of rights or otherwise; and/or
 - (ii) make or grant offers, agreements or options (collectively, “Instruments”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,
- at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and
- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force,

(the “*Share Issue Mandate*”)

NOTICE OF ANNUAL GENERAL MEETING

provided that:

- (1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings) (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed 20% of the total number of issued shares (excluding treasury shares and subsidiary holdings) (as calculated in accordance with sub-paragraph (2) below);
- (2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the total number of issued shares and Instruments shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) at the time of the passing of this Resolution, after adjusting for:
 - (a) new shares arising from the conversion or exercise of the Instruments or any convertible securities;
 - (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution; and
 - (c) any subsequent consolidation or subdivision of shares;
- (3) in exercising the Share Issue Mandate conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and
- (4) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments.

[See Explanatory Note (ii)]

(Resolution 7)

7. Authority to issue shares under the Sino Grandness Employee Share Option Scheme

That pursuant to Section 161 of the Companies Act, the Directors of the Company be authorised and empowered to offer and grant options (“Options”) under the Sino Grandness Employee Share Option Scheme (the “Scheme”) and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of options granted by the Company under the Scheme, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Scheme shall not exceed 15% of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (iii)]

(Resolution 8)

8. Grant of Options under the Scheme to Ms Huang Yushan, an associate of a controlling shareholder of the Company

That subject to and contingent upon the passing of Ordinary Resolution 9, the Remuneration Committee of the Company be and is hereby authorised to offer and grant Option(s) to Ms Huang Yushan, an associate of a controlling shareholder of the Company on the following terms:

- (a) Proposed Date of Grant of Option(s) : Any time within one (1) month from the date of this Annual General Meeting
- (b) Proposed Number of shares comprised in the proposed Option(s) : Up to 1,101,250 shares

NOTICE OF ANNUAL GENERAL MEETING

- (c) Exercise Price per Share : Twenty per cent (20%) discount to the Market Price as at the date of grant
- (d) Exercise Period : At any time after the second (2nd) anniversary of the date of grant of the Options and up to the tenth (10th) anniversary therefrom.

In this Resolution, “**Market Price**” means the price equal to the average of the last dealt price for a share in the capital of the Company, as determined by reference to the daily official list or other publication published by the SGX-ST for five (5) consecutive market days immediately preceding the date of grant, rounded up to the nearest whole cent in the event of fractional prices.

[See Explanatory Note (iv)]

(Resolution 9)

9. Renewal of Share Purchase Mandate

That:

- (a) for the purposes of Sections 76C and 76E of the Companies Act, Chapter 50 of Singapore (the “**Companies Act**”), the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire ordinary shares in the capital of the Company (the “**Shares**”) not exceeding in aggregate the Maximum Limit, at such prices as may be determined by the Directors of the Company from time to time up to the Maximum Price, whether by way of:-
- (i) market purchase(s) (each a “**Market Purchase**”) on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”); and/or
- (ii) off-market purchase(s) (each an “**Off-Market Purchase**”) effected otherwise than on the SGX-ST in accordance with any equal access scheme(s) as may be determined or formulated by the Directors of the Company as they consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act,
- and otherwise in accordance with all other laws and regulations and the Listing Manual of the SGX-ST as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the “**Proposed Share Buy-back Mandate**”);
- (b) any Share that is purchased or otherwise acquired by the Company pursuant to the Proposed Share Buy-back Mandate shall, at the discretion of the Directors of the Company, either be cancelled or held in treasury and dealt with in accordance with the Companies Act;
- (c) unless varied or revoked by the Company in a general meeting, the authority conferred on the Directors of the Company pursuant to the Proposed Share Buy-back Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the passing of this Resolution and expiring on the earliest of:-
- (i) the date on which the next Annual General Meeting of the Company is held or is required by law to be held;
- (ii) the date on which the share buy-backs are carried out to the full extent mandated; or
- (iii) the date on which the authority contained in the Proposed Share Buy-back Mandate is varied or revoked; and
- (d) in this Resolution:

“**Maximum Limit**” means the number of issued Shares representing 10% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if applicable) as at the date of the last Annual General Meeting before the resolution authorising the Proposed Share Buy-back Mandate is passed or as at the date on which the resolution authorising the Proposed Share Buy-back Mandate is passed, whichever is the higher;

NOTICE OF ANNUAL GENERAL MEETING

“**Maximum Price**” in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, commissions, stamp duties, applicable goods and services tax and other related expenses) which shall not exceed:

in the case of a Market Purchase, 105% of the Average Closing Price of the Shares;

in the case of an Off-Market Purchase of a Share, 120% of the Average closing Price of the Shares;

“**Average Closing Price**” means (a) the average of the closing market prices of a Share over the last 5 Market Days, on which transactions in the Shares were recorded, preceding the date of the Market Purchase or, as the case may be, the day of the making of the offer pursuant to the Off-Market Purchase; and (b) deemed to be adjusted for any corporate action that occurs after the relevant five-day period; and

“**day of the making of the offer**” means the day on which the Company announces its intention to make an offer for the purchase of Shares from Shareholders, stating the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase;

- (e) any of the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including without limitation, to execute all such documents as may be required and to approve any amendments, alterations or modifications to any documents), as they or he may consider desirable, expedient or necessary to give effect to the transactions contemplated by this Resolution.

[See Explanatory Note (v)]

(Resolution 10)

By Order of the Board

Chew Kok Liang / Wong Chuen Shya (Huang Chunxia)
Company Secretaries
Singapore, 7 April 2017

Explanatory Notes:

- (i) Mr Zeng Ming will, upon re-election as a Director of the Company, remain as an Executive Director of the Company.
- Mr Huang Yupeng will, upon re-election as a Director of the Company, remain as the Chairman and Chief Executive Officer of the Company.
- Mr Chalermchai Mahagitsiri will, upon re-election as a Director of the Company, remain as a Non-Executive Director of the Company.
- (ii) Resolution 7, if passed, will empower the Directors of the Company from the date of this Annual General Meeting until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings), of which up to 20% may be issued other than on a pro-rata basis to existing shareholders of the Company.
- For determining the aggregate number of shares that may be issued, the percentage of issued shares will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holdings) at the time this Resolution is passed after adjusting for new shares arising from the conversion or exercise of the Instruments or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Resolution is passed and any subsequent consolidation or subdivision of shares.
- (iii) Resolution 8, if passed, will empower the Directors of the Company, from the date of this Annual General Meeting until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company pursuant to the exercise of options granted or to be granted under the Scheme up to a number not exceeding in total (for the entire duration of the Scheme) 15% of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time.

NOTICE OF ANNUAL GENERAL MEETING

- (iv) Ordinary Resolution proposed in resolution 9 in item 8 above if passed will empower the Directors of the Company to grant options pursuant to Sino Grandness Employee Share Option Scheme (“**Scheme**”) to subscribe up to 1,101,250 ordinary shares in the capital of the Company to Ms Huang Yushan (“**Proposed Options**”).

Ms Huang Yushan is the sister of Mr Huang Yupeng, a controlling shareholder of the Company. Therefore, Ms Huang Yushan is considered an associate of Mr Huang Yupeng under the SGX-ST Listing Manual.

Rationale for the grant

Ms Huang Yushan is and has been an Executive Director of the Company since 2008. Since then, she has, and continues to, contribute significantly to the performance and strategic direction of the Group. Ms Huang Yushan is an important member of the executive team of the Group and it is believed she will continue to make invaluable contributions to the Group. In the Extraordinary General Meeting of the Shareholders of the Company held on 23 September 2013, the Shareholders of the Company had approved the participation of Ms Huang Yushan in the Scheme.

As at the Notice of the 2016 AGM, Ms Huang Yushan holds outstanding options under the Scheme to which entitles her to subscribe for 3,303,750 shares (the “**Existing Options**”). As at the Notice of the 2016 AGM, she has not exercised any options granted to her under the Scheme. The Board of Directors proposes to grant further options to Ms Huang Yushan to subscribe for up to 1,101,250 shares. Based on the existing issued share capital of the Company as at the Latest Practicable Date, an aggregate of 10,100,172 options (representing 10% of the total number of shares available under the Scheme as at that date) may be held by Ms Huang Yushan pursuant to the Scheme. The said 1,101,250 shares, together with the Existing Options, amount to an aggregate of 4,405,000 shares which represent approximately 4.36% of the total number of shares available under the Scheme as at the Latest Practicable Date.

The Company is proposing to grant the Proposed Options to reward Ms Huang Yushan for her past and continuing contributions to the Group and to motivate her to further create higher shareholders’ value. The exercise price of the Proposed Options is set at twenty per cent (20%) discount to the market price, which is consistent with all other options granted to other employees and directors under the Scheme. The Proposed Options, if exercised, would increase Ms Huang’s cost of investment in the Company and in turn demonstrate her long term commitment to further enhance shareholders’ wealth through appreciation of the share price. Additionally, as the Proposed Options may not be exercised until after the second anniversary of the date of grant, the reward from the exercise of the Proposed Options would not be immediate. The value of the Proposed Options would be realized only when the results and prospects of the Group’s long term performances and growth translate into higher share price and higher shareholder value.

Directors’ recommendation

All Directors who are eligible to participate in the Scheme have refrained from making any recommendation in favour of the Ordinary Resolution in respect of the proposed grant of options to subscribe for up to 1,101,250 shares to Ms Huang Yushan at the Annual General Meeting.

The Company shall procure that Mr Huang Yupeng, Ms Huang Yushan, their respective associates, and all shareholders who are eligible to participate in the Scheme (“**Eligible Shareholders**”) shall abstain from voting in the Ordinary Resolution on the proposed grant of options to subscribe for up to 1,101,250 shares to Ms Huang Yushan at this Annual General Meeting.

Mr Huang Yupeng, Ms Huang Yushan and other Eligible Shareholders shall not accept nomination as proxy or otherwise vote at this Annual General Meeting in respect of the Ordinary Resolution unless shareholders appointing them as proxies give specific instructions in the relevant proxy forms on the manner in which they wish their votes to be cast for the Ordinary Resolution.

Directors’ responsibility statement

The Directors collectively and individually accept full responsibility for the accuracy of the information given herein and confirm, having made all reasonable enquiries that, to the best of their knowledge and belief, this notice constitutes full and true disclosure of all material facts about this Ordinary Resolution, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statements in this notice misleading. Where information herein has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced herein in its proper form and context.

SGX-ST’s disclaimer

The SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Notice of Annual General Meeting.

- (v) Ordinary Resolution proposed in resolution 10 in item 9 above is to authorise the Directors of the Company from the date of the above meeting until the earliest of (i) the date on which the next Annual General Meeting of the Company is held or required by law to be held, (ii) the date on which the purchases or acquisitions by the Company pursuant to this mandate are carried out to the full extent mandated; or (iii) the date on which the authority conferred by this mandate is varied or revoked by Shareholders in general meeting, to purchase or otherwise acquire issued ordinary shares in the capital of the Company by way of market purchases or off-market purchases of up to 10% of the total number of issued ordinary shares (excluding treasury shares and subsidiary holdings) in the capital of the Company. For more information on this resolution, please refer to the Appendix dated 7 April 2017.

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A Member of the Company (other than a Relevant Intermediary*) entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.
2. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified.)
3. The instrument appointing a proxy must be deposited at the office of the Company's share registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road #11-02 Singapore 068898 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

* A Relevant Intermediary is:

- (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
- (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or
- (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

PERSONAL DATA PRIVACY

Where a member of the Company submits an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

SINO GRANDNESS FOOD INDUSTRY GROUP LIMITED

(Company Registration No. 200706801H)
 (Incorporated In the Republic of Singapore)

IMPORTANT:

1. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.
2. This Proxy Form is not valid for use by CPF and SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, _____ (Name) NRIC/Passport No.* _____

of _____
 being a member/members* of Sino Grandness Food Industry Group Limited (the "Company"), hereby appoint:

Name	NRIC/Passport No	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No	Proportion of Shareholdings	
		No. of Shares	%
Address			

as my/our* proxy/proxies* to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at Room 304, Level 3 Suntec Singapore Convention & Exhibition Centre 1 Raffles Boulevard, Suntec City Singapore 039593 on Tuesday, 25 April 2017 at 10.00 a.m. and at any adjournment thereof. I/We* direct my/our* proxy/proxies* to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her* discretion.

(If you wish to exercise all your votes "For" or "Against", please tick [✓] within the box provided. Alternatively, please indicate the number of votes as appropriate.)

No.	Resolutions relating to:	For	Against
1	Audited Financial Statements for the financial year ended 31 December 2016		
2	Re-election of Mr Zeng Ming as a Director		
3	Re-election of Mr Huang Yupeng as a Director		
4	Re-election of Mr Chalermchai Mahagitsiri as a Director		
5	Approval of Directors' fees amounting to S\$145,000 for the financial year ending 31 December 2017 (2016: S\$145,000)		
6	Re-appointment of Foo Kon Tan LLP as Auditors		
7	Authority to allot and issue new shares		
8	Authority to issue shares under the Sino Grandness Employee Share Option Scheme		
9	Grant of Options under the Scheme to Ms Huang Yushan, an associate of a controlling shareholder of the Company		
10	Renewal of share buyback mandate		

Dated this _____ day of _____ 2017

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

 Signature of Shareholder(s)
 and/or Common Seal of Corporate Shareholder

*Delete where inapplicable



Notes :

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company (other than a Relevant Intermediary*), entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member (other than a Relevant Intermediary*) appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number or class of shares shall be specified).
5. Subject to note 9, completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
6. The instrument appointing a proxy or proxies must be deposited at the office of the Company's share registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road #11-02 Singapore 068898 not less than forty-eight (48) hours before the time appointed for the Meeting.
7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of an attorney or duly authorised officer. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
8. A corporation which is a member may authorize by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore, and the person so authorised shall upon production of a copy of such resolution certified by a director of the corporation to be a true copy, be entitled to exercise the powers on behalf of the corporation so represented as the corporation could exercise in person if it were an individual.
9. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

* A Relevant Intermediary is:

- (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
- (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or
- (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 7 April 2017.



SINO GRANDNESS FOOD INDUSTRY GROUP LIMITED
56th Floor Tower A Union Plaza
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Futian District Shenzhen
Guangdong Province
The People's Republic of China

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