Tianyun International Holdings Limited
天韵國際控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 6836.HK

More Fresh and Healthy Choices

Interim Report 2017

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. Yang Ziyuan *(Chairman and Chief Executive Officer)*
Mr. Sun Xingyu

Non-executive Directors

Ms. Chu Yinghong
Mr. Wong Yim Pan

Independent Non-executive Directors

Mr. Liang Zhongkang
Mr. Tsang Yuen Wai
Ms. Hui Yung Yung Janet

Audit Committee

Mr. Tsang Yuen Wai *(Chairman)*
Mr. Liang Zhongkang
Ms. Hui Yung Yung Janet

Nomination Committee

Mr. Yang Ziyuan *(Chairman)*
Mr. Liang Zhongkang
Mr. Tsang Yuen Wai
Ms. Hui Yung Yung Janet

Remuneration Committee

Mr. Liang Zhongkang *(Chairman)*
Mr. Yang Ziyuan
Mr. Tsang Yuen Wai
Ms. Hui Yung Yung Janet

Strategic Development Committee

Mr. Yang Ziyuan *(Chairman)*
Mr. Sun Xingyu
Ms. Chu Yinghong
Mr. Wong Yim Pan
Mr. Liang Zhongkang

Company Secretary

Mr. Ho Ho Tung Armen

Authorised Representatives

Mr. Sun Xingyu
Mr. Ho Ho Tung Armen

Headquarters and Principal Place of Business in China

Middle Phoenix Street
Hedong District
Linyi City, Shandong Province
The PRC

Registered Office in the BVI

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Tortola
British Virgin Islands
VG1110

Principal Place of Business in Hong Kong

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Beautiful Group Tower
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Central
Hong Kong

Branch Share Registrar and Transfer Office in Hong Kong

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

Legal Adviser as to Hong Kong Law

F. Zimmern & Co.
Rooms 1002-1003, 10th Floor
York House
The Landmark
15 Queen's Road Central
Hong Kong

Legal Adviser as to PRC Law

Jingtian & Gongcheng
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77 Jianguo Road
Chaoyang District
Beijing 100025
the PRC

Principal Bankers

Bank of China (Hong Kong) Limited
1 Garden Road
Central, Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Central, Hong Kong

Industrial and Commercial Bank of China
Branch of Hedong District
433 Phoenix Street, Hedong District
Linyi City, Shandong Province
The PRC

Bank of China Limited
Beiyuan Branch
131 Suhe North Street
Lanshan District, Linyi City
Shandong Province
The PRC

Agricultural Bank of China
Branch of Lanshan District
Linyi City 173 Yimeng Road
Lanshan District, Linyi City
Shandong Province
The PRC

Linshang Bank
Beijiao Branch
Kunlun Garden Sideway 276037
Intersection of Yimeng Road and Sanhejiu Street
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The PRC

Auditor

PricewaterhouseCoopers
22nd Floor, Prince's Building
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Company's Website

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Stock Code

6836

Management Discussion and Analysis

Tianyun International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") are principally engaged in (i) the production and sales of processed fruit packaged in metal containers, plastic cups and glass containers and (ii) trading of fresh fruit. Processed fruit is sold both on an OEM basis and under our own brands. On 7 July 2015, the Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited which had further consolidated our leading position in China's processed fruit product industry.

During the six months ended 30 June 2017 (the "Review Period"), the Group was awarded "2017 China's Most Promising Listed Companies (2017福布斯中國上市公司潛力企業榜)" by Forbes China, becoming one of the three food enterprises recognised for its excellence, making the Group the only growth enterprise in China's processed fruit industry to be recognised for its excellence, further cementing the Group's position as a market leader.

The Group has been consistently committed to provide healthy and safe products to its customers. As one of the food enterprises with the most complete quality certifications, we have always been dedicated to following stringent international production standards and are accredited with BRC (A+), IFS Food (High), FDA, HALAL, SC, KOSHER, BSCI and ISO22000 in respect of our production facilities, quality control and management. The Group has also passed the internal food production standard reviews and audits from some of the UK and US supermarket chains. At the same time, within China, as a "Equal production line; Equal standard; Equal quality" food production and export enterprise, the Group has been supplying products of equivalent quality to domestic and international markets. Since 2016, the Group's own brand processed fruit products have continued to obtain a high degree of market recognition, and have been awarded by a national institution the honour and qualification of "China Canned Product Quality Certification Label", becoming the first and only fruit processor in China's fruit processing industry to put the "Zero Added Preservative Canned Products" label for its products sold in China.

Business Review

During the Review Period, the global economy experienced a recovery, although some uncertainties remain. U.S. economic policies under President Donald Trump, based on tax cuts and infrastructure spending, has yet to yield substantial results, while Brexit negotiations maintain pressure on global markets. During the Review Period, the Chinese economy has maintained a positive momentum, as the pace of structural adjustment and transformative upgrade of the food industry continues to accelerate, and food safety is increasingly valued. In April of this year, the General Office of the State Council of the People's Republic of China issued the Notice on Arrangements for Focused Work on Food Safety for 2017. The key works include strengthening the establishment of rule of law for food safety, improving food safety standards and implementing a food safety responsibility system, and striving for further assurance on the work of food safety advancement.

Under these conditions, the Group has strived to develop its businesses, adopt a proactive approach in business, and maintained a strategy of parallel development of its own brand and OEM business. During the Review Period, the revenue from OEM sales and own brand business sales accounted for 45.5% and 40.4% respectively of the Group's total revenue. All levels in the Group showed solidarity. We continued to expand our online and offline operations, thus allowing our sales results to perform steadily and rise continuously, with period on period revenue realising double-digit growth rate. Our revenue and adjusted gross profit grew 11.6% and 2.3% respectively to RMB343.3 million and RMB92.7 million, of which revenue from our own brand business soared by 53.9% to RMB138.7 million.

Management Discussion and Analysis

Own Brand Product Sales Strategy

During the Review Period, the Group has maintained a strong effort in developing and establishing our own brands, including "天同時代 (Tiantong Times)", "繽果時代 (Bingo Times)", and "果小懶". Income from products has grown steadily, and the momentum of development is strong. In the first half of this year, revenue from its own brand business even experienced a period on period growth of 53.9% to RMB138.7 million.

The Group has actively participated in various trade fairs, opened up sales channels with good potential, and continuously expanded the sales network, in order to enhance the profile of our own brands. During the 42nd International Food and Beverage Exhibition held in Japan in March 2017, the Group was pleased to be able to attract clients, orders and enquiries through a variety of sales efforts; the Group took part in the 96th China Food and Drinks Fair held in Chengdu in April, receiving widespread attention from numerous businesses and clients, and successfully signed contracts with 22 new distributors; Additionally, the Group's "天同時代 (Tiantong Times)", "果小懶", and "繽果時代 (Bingo Times)" brands made a glamorous appearance in the PLMA's 2017 "World of Private Label" International Trade Show held in Amsterdam, the Netherlands in May 2017, attracting businesses from various countries and regions to interact and explore business opportunities, which will help to spur the Group's own brands in its march towards broader international markets.

Since 2016, in order to cater to the consumption patterns of the younger generations of consumers in their 20s and 30s, the Group has put a great effort in developing online sales channels and focusing on e-commerce platforms such as WeChat Business (微商). The Group also set up a special "E-Commerce Commission" to manage and control its WeChat sales team. At the same time, the Group has provided special offers to online members, including the sales of limited editions of new fruit products and product customisation. Our online sales during the Review Period has already exceeded that of the entire year in 2016, soaring to RMB32.5 million, representing approximately 11.0% of the revenue from processed fruit products during the Review Period.

While we have been working hard in developing online sales channels, the traditional offline sales channels remain more mature and we have spared great effort in expanding such channels. We continued to achieve positive progress and the Group's own brand continued to utilise the new distribution system. During the Review Period, the Group spent approximately RMB4.8 million in building the brand "繽果時代 (Bingo Times)" through organising promotion events with distributors and offering free trial products to potential customers in our target markets. As of the date of this report, our number of distributors has raised to 160, and the sales network of our own brand has now covered 21 provinces, direct-controlled municipalities, and autonomous regions in China as well as the Hong Kong and Macau markets.

Additionally, the Group has been successfully opened up the overseas markets under the brand of "天同時代 (Tiantong Times)", which has entered into the Hong Kong and Macau markets, and can be found on the shelfs of over 1,300 points of sales including Wellcome Supermarkets, 7-11 convenience stores, AEON stores, O'farm organic stores, and VanGO convenience stores of Vanguard.

OEM Sales Strategy

Based on our commitment to full compliance with international processed food quality and safety standards, the Group always conducts stringent testing on fresh fruits provided by suppliers. In order to ensure the quality of raw materials, the Group only purchased the fruits when the tests are passed. The Group has attracted internationally renowned clients and gradually become one of the leaders in the processed food industry in China through its competitive advantages as a reliable and full-service OEM supplier. We have consistent quality, comprehensive international industrial certifications and rich product lines. During the Review Period, our OEM business has continued to provide a stable revenue for the Group which amounted to RMB156.3 million. The amount is only 91.6% of revenue for the same period last year due to our strategy in prioritising production capacity to products under our own brand business. This is commensurate with our business strategy of increasing the market penetration and expanding the revenue share of our own brand business. During the Review Period, the Group also prioritised the OEM orders to direct overseas customers. Our revenue from direct overseas customers increased by 30.8% to approximately RMB34.4 million.

Management Discussion and Analysis

Trading of Fresh Fruit

The Group selected and resold a small portion of the fresh fruit to fresh fruit wholesalers in the PRC. During the Review Period, the revenue from trading of fresh fruit and others was approximately RMB48.3 million, representing 14.1% of the Group's total revenue. As the share of revenue from our own brand product sales continued to increase, the share of revenue from the fresh fruit sales segment continued to decrease comparing to the same period of 2016.

Expansion of Production Facilities

The Group continues to improve production facilities to enhance its production efficiency and quality. Upgrading and transformation of production workshops No. 1 and No. 2 have been completed, which further enhance production efficiency and level of automation, while production workshops No. 3 and No. 4 have also formally commenced production last year, and the Group is also actively driving the design work for production workshops No. 5 and No. 6. During the Review Period, annual designed production capacity of the Group has reached 84,000 tons. Meanwhile, the Group has consistently and strictly complied with the Food Safety Law of the People's Republic of China (中國食品安全法) and the Regulation on the Implementation of the Food Safety Law of the People's Republic of China (中國食品安全法實施條例), and introduced more advanced quality control equipment such as gas chromatograph-mass and liquid chromatograph-mass spectrometer for detecting pesticide residues; atomic fluorescence and adoption spectrometer for detecting heavy metal; and X-ray machines that are used for detecting impurities during the packaging process, as we strive to further enhance the safety levels of production ingredients and food production, and strengthen the Group's competitiveness.

Research and Development and Promotion

In order to grasp market demand, the Group has rolled out a diverse range of new products with different flavours, including the "冰糖燉梨 (Stewed pears soup with crystal sugar)" under the "繽果時代 (Bingo Times)" brand and the "一罐一碼紅包獎賞 (One-can-one-code Bonus Reward)" series of processed fruit products.

During the Review Period, the Group entered into an industry-university research collaboration agreement with the Life Science Institute of Linyi University, Shandong Province. Both parties agreed to commence full cooperation in areas such as scientific research, innovative development, educational teaching, and talents development, as well as forming an industry-university research base that includes sharing of research results and big data.

During the Review Period, we have been and are continuing to research and development new processed fruit products, including a trans fat-free snack made 100% from fruits which is very similar to fruit ice creams, and fruit jellies. The Group will continue to roll out new types of snack products under our own brand, in order to satisfy and suit the tastes and demands of different consumer groups, particularly the younger consumers.

Management Discussion and Analysis

Prospects

Looking forward to the second half of the year, as economic development appears to take a stable foothold, there is a clearer rising trend in domestic consumption in China. Coupled with China's consumers having an increasing awareness for the pursuit of healthiness, more and more people are beginning to understand that canned fruits are just as healthy and nutritious as fresh fruits. The change in their perceptions of canned fruits would bring new opportunities to the industry.

Meanwhile, we have noticed that within the big data concerning on food safety, the level of concern for fruits is relatively high. As the only enterprise in the processed fruit industry to be awarded the "China Canned Product Quality Certification Label" (中國罐頭產品品質證明標誌) qualification by the China Canned Food Industry Association, the Group will, on the basis of our current work, further strengthen supervision of food safety standards, and make strong efforts in promoting our safe, healthy, and quality products, in order to direct the sustainable growth of the Group's businesses.

In future, the Group will continue our strategy of parallel development of our own brand and OEM businesses, in order to further cement the Group's position as a market leader. For our own brand business, the Group will continue to promote and advertise our brands "繽果時代 (Bingo Times)", "果小懶", "天同時代 (Tiantong Times)", and "果三十", and the products from these lines. In addition to accelerating the establishment of the offline sales network in China and in Hong Kong and Macau, the Group will also be more active in participating in large scale food exhibitions and trade fairs around the world, so as to strengthen the image of our brands in the global market. Meanwhile, in order to match the consumption patterns of the younger generations, the Group will use precision marketing on e-commerce platforms such as WeChat Business (微商) and Tmall (天貓商城) to promote its own brand product. We hope that the integration of branding and technology could promote a deeper interaction between online and offline market and build a more comprehensive and efficient O2O processed food market, and create new development and momentum for the Group.

According to a report by a research and consulting firm, Frost & Sullivan, current consumption per capita of canned fruit products in China is lower than that in developed countries, thus it is expected that there is enormous room for growth for the consumption per capita of canned fruit products in China. Furthermore, China was the largest fresh fruit producer, and manufacturer and exporting country of canned fruit in the world in 2013. China's production of major types of fresh fruits, such as peaches, apples, and pears, occupy shares of more than 50% of global production. In terms of product types, in order to follow the transformations of the consumer market and support diversification of product varieties, the Group will expand its supply chain of processed fruit products through introducing more fruit types and continuing to develop new products. At the same time, the Group will actively seek industrial partnership opportunities and potential acquisitions under the premise that cooperation can maximize the overall operating efficiency and produce synergies. The Group is actively pursuing the acquisition of a company engaged in production and sales of processed fruit including mandarin orange in subtropical zone of China. Currently the preparation work has been progressing well. The Group targets to complete the potential acquisition as soon as possible by the end of this year, in order to add further types of fruit products, stabilise and increase our production capacity, and satisfy the market demand.

As a renowned food processor in China, we will continue to supply consumer with safe, nutritious, delicious and convenient processed fruit products based on our highest mission of safe and healthy food production. As to the overall development of the Group, we will make a balance on our domestic and international businesses considering the benefits on each side, we would strive to become one of the leading companies in the sector in China in the short to medium term, and bring to shareholders and investors long term, sustainable and stable investment returns. The Board has also resolved to pay an interim dividend of HK1.6 cents per share, which represents 26.0% of the net profit of the Review Period.

To express the full confidence of the management in the Group's development, the Group's chairman and controlling shareholder, Mr. Yang Ziyuan, has increased his holdings by a total of 1,450,000 shares between June and July 2017, providing the most substantial assurance and support to the Group and its investors.

Management Discussion and Analysis

Financial Review

Revenue

During the six months ended 30 June 2017, our revenue increased to approximately RMB343.3 million from approximately RMB307.6 million for the six months ended 30 June 2016, representing an increase of approximately RMB35.7 million or 11.6%. The Company continued to sell its processed fruit products on both OEM basis and under its own brand, and engaged in trading of fresh fruits. The increase in revenue was mainly attributable to (i) the substantial increase in the sales of our own brand products from approximately RMB90.1 million for the six months ended 30 June 2016 to approximately RMB138.7 million for six months ended 30 June 2017, representing a growth of 53.9%.

Breakdown of the revenue by business segments for the six months ended 30 June 2017 and the comparative figures in 2016 are set out as follows:

	For the six months ended 30 June		Changes	
	2017	2016		
	RMB million	RMB million	RMB million	%
Revenue				
OEM Sales	**156.3**	170.6	(14.3)	(8.4)
Own Brand Sales	**138.7**	90.1	48.6	53.9
Fresh Fruits Sales and others	**48.3**	46.9	1.4	3.0
Total	**343.3**	307.6	35.7	11.6

During the Review Period, processed fruit products sold under our own brand accounted for 40.4% (2016: 29.3%) of the total revenue and the sales of our own brand products have become the Group's key segment. The substantial increase was contributed by the continuous increase in the number of new distributors and the growth of sales from most of the existing distributors. The number of our distributors increased from 126 as at the date of last annual report to 160 as at the date of this report. The revenue through online channels also grew substantially in the Review Period and represented 11.0% of our revenue from processed fruit products.

Processed fruit products sold on an OEM basis continued to contribute a significant portion of the total revenue of the Group and represented 45.5% (2016: 55.5%) of the total revenue during the six months ended 30 June 2017.Our processed fruit products are sold to international well-known brand owners either by our Group directly to overseas brand owners, or through third party trading entities in the PRC and other countries.

We also sold fresh fruit products and the revenue contributed by fresh fruit sales and others represented 14.1% of the total revenue for the six months ended 30 June 2017 (2016: 15.2%). Revenue from fresh fruit sales and others for the six months ended 30 June 2017 was broadly in line with same period of last year.

Management Discussion and Analysis

Gross profit and gross profit margin

	For the six months ended 30 June		Changes	
	2017	2016		
	RMB million	RMB million	RMB million	%
Gross profit				
OEM Sales	**47.4**	55.4	(8.0)	(14.4)
Own Brand Sales	**38.2**	28.0	10.2	36.4
Fresh Fruits Sales and others	**7.2**	10.8	(3.6)	(33.3)
Total gross profit	**92.8**	94.2	(1.4)	(1.5)
Adjustment:				
Release of provision for social insurance contributions	**(0.1)**	(3.6)		
Adjusted gross profit for the period	**92.7**	90.6	2.1	2.3

Gross profit for the six months ended 30 June 2017 slightly decreased to approximately RMB92.8 million from approximately RMB94.2 million for the six months ended 30 June 2016, representing a period on period decrease of RMB1.4 million, or 1.5%. If the one-off adjustment with regard to the release of provision for social insurance and related contributions is excluded, the adjusted gross profit for the Review Period increased by approximately RMB2.1 million to RMB92.7 million. The increase was mainly driven by increase in revenue which was offset by the overall decrease in gross profit margin.

	For the six months ended 30 June	
	2017	2016
Gross profit margin		
OEM Sales	**30.3%**	32.5%
Own Brand Sales	**27.5%**	31.1%
Fresh Fruits Sales and others	**14.9%**	23.0%
Overall gross profit margin	**27.0%**	30.6%

Gross profit margin for the Review Period decreased from 30.6% to 27.0%. Although the Group has increased the proportion of revenue from the products packaged in plastic containers that have a higher gross profit margin and controlled effectively the usage of utilities, the key components of cost of sales have increased, including fruit raw materials, sugar, containers, packaging materials, supplements, depreciation expenses and direct labour costs. While the Group was able to transfer some of the costs to the overseas OEM customers by increasing the selling price, the Group did not raise the price on its own brand products during the Review Period due to its strategies to attract more quality distributors and penetrate the China market in a faster pace.

Selling and distribution expenses

Selling and distribution expenses mainly include the transportation costs, promotion expenses, advertising expenses, and salary expenses and related staff costs from sales and marketing department. For the six months ended 30 June 2017, the selling and distribution expenses amounted to approximately RMB10.3 million, representing a period on period increase of approximately RMB5.2 million, or 102.0%. The increase was mainly due to the brand building expenses in connection with offering free trial products amounting to approximately RMB4.8 million (2016: Nil).

General and administrative expenses

General and administrative expenses mainly include salary expenses and related staff costs for management and administrative departments, professional fees, agency and consulting fees, depreciation, foreign exchange differences, and various taxes with regard to the use of land and buildings. The amount increased from RMB7.3 million for the six months ended 30 June 2016 to RMB14.4 million for the six months ended 30 June 2017. During the Review Period, an exchange loss of RMB1.3 million was reported in the general and administrative expenses while an exchange gain of RMB5.3 million was reported during the same period of 2016. The exchange difference mainly arose from bank balances and account receivables denominated in HKD and USD, and the depreciation trend of HKD and USD against RMB during first half of 2017. Without taking into account the exchange gain or loss, general and administrative expenses slightly increased from RMB12.6 million for the six months ended 30 June 2016 to RMB13.1 million for the Review Period, representing only a 4.0% period on period increase.

Income tax expenses

Income tax expenses represent the PRC enterprise income tax of our PRC subsidiaries. For the six months ended 30 June 2017, our income tax expenses decreased by RMB3.1 million, or approximately 16.5%, to RMB15.7 million from RMB18.8 million for the six months ended 30 June 2016. The decrease in the income tax expenses was primarily due to the decrease in our profit before tax during the Review Period.

Net profit and net profit margin

	For the six months ended 30 June		Changes	
	2017 RMB million	2016 RMB million	RMB million	%
Net profit for the period	**52.3**	61.7	(9.4)	(15.2)
Adjustments:				
Release of provision for social insurance contributions	**(0.1)**	(3.6)		
Foreign exchange differences	**1.3**	(5.3)		
Brand building expenses	**4.8**	–		
Adjusted net profit for the period	**58.3**	52.8	5.5	10.4
Net profit margin	**15.2%**	20.1%	N/A	N/A
Adjusted net profit margin	**17.0%**	17.2%	N/A	N/A

For the six months ended 30 June 2017, net profit decreased by approximately RMB9.4 million or 15.2% to approximately RMB52.3 million as compared to approximately RMB61.7 million for the six months ended 30 June 2016. Notwithstanding the Group's effective control in the selling and distribution expenses, and the general and administrative expenses, the net profit during the Review Period dropped due to several non-recurring or one-off expenses. If the release of provision for social insurance and related contributions, foreign exchange differences and new brand building expenses are excluded, the adjusted net profit for the Review Period increased by RMB5.5 million or 10.4% to approximately RMB58.3 million, which is broadly in line with the revenue growth.

The net profit margin and adjusted net profit margin for the Review Period were 15.2% (2016: 20.1%) and 17.0% (2016: 17.2%) respectively.

Management Discussion and Analysis

Liquidity, financial resources and capital resources

The Group principally meets the requirements on its working capital and other liquidity requirements through a combination of operating cash flows, capital contributions and bank and other borrowings.

Summary of major indicators in respect to the strength on the liquidity of the Group

	As at 30 June 2017	As at 31 December 2016
Gearing ratio (%)	**15.0%**	17.2%
Current ratio	**3.49**	3.23
Cash and cash equivalent (RMB million)	**207.4**	224.0
Net current assets (RMB million)	**278.1**	258.4
Quick ratio	**2.82**	2.67

The gearing ratio of the Group as at 30 June 2017 was 15.0% (31 December 2016: 17.2%). Gearing ratio was calculated based on total debts divided by total equity. The amount of total debts was calculated by aggregating the bank and other borrowings and the non-trade nature of amount due to a related company.

The current ratio (calculated based on total current assets divided by total current liabilities) of the Group as at 30 June 2017 was 3.49 (31 December 2016: 3.23).

As at 30 June 2017, our cash and cash equivalents amounted to approximately RMB207.4 million (31 December 2016: RMB224.0 million). Our net current assets was approximately RMB278.1 million as at 30 June 2017, as compared to approximately RMB258.4 million as at 31 December 2016.

The quick ratio (calculated based on total currents assets minus inventory divided by total current liabilities) of the Group as at 30 June 2017 was 2.82 (31 December 2016: 2.67).

With stable cash inflows generated in the daily business operation, plus the net proceeds raised from listing, the Group has sufficient resources for future expansion.

The Group manages its capital structure to maintain a balance between the equity and debts which makes adjustment to the capital structure in light of the changes in economic conditions affecting the Group.

The Group has not experienced any material difficulties or adverse effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 30 June 2017.

Capital structure

The Group's total equity and liabilities amounted to approximately RMB595.7 million and RMB118.0 million, respectively as at 30 June 2017 (31 December 2016: RMB566.2 million and RMB129.5 million, respectively).

Bank and other borrowings, and net finance costs

As at 30 June 2017, the total amount of an interest-bearing bank borrowing and other borrowings from a leasing company of the Group was RMB89.3 million (31 December 2016: RMB97.2 million).

Net finance costs of the Group decreased from RMB1.6 million for the six months ended 30 June 2016 to RMB0.3 million for the six months ended 30 June 2017, representing a decrease of approximately RMB1.3 million or 81.3%. Such decrease was mainly attributable to the increase in capitalization of borrowing costs of RMB1.9 million which is partly offset by the increase in interest expenses of RMB0.6 million. The weighted effective interest rate of bank and other borrowings was 5.4% per annum as at 30 June 2017 (31 December 2016: 5.3% per annum).

Pledged assets

The Group pledged its land and buildings as collateral for the bank borrowing and certain plant and equipment, office and computer equipment and furniture and fixtures for borrowings from a leasing company. As at 30 June 2017, the net book value of pledged land and buildings, and plant and equipment amounted to approximately RMB101.1 million. (As at 31 December 2016: RMB105.9 million).

Capital expenditure

During the Review Period, the Group did not have any significant capital expenditure and certain plant, machinery and equipment of approximately RMB2.3 million were purchased. We also spent approximately RMB4.0 million on a road improvement work in our headquarter in Linyi City of Shandong Province.

Interest rate risk

The Group has not used any derivatives to hedge against interest rate risk. The interest rate risk of the Group arises from the bank balances at floating interest rates and the bank and other borrowings. The bank borrowing obtained at variable rate exposes the Group to cash flow interest rate risk which is partially offset by the bank balances held at variable rates. The borrowings of the Group from a leasing company at fixed rates also expose the Group to fair value interest rate risk. During the Review Period, the bank and other borrowings of the Group at variable rates and fixed rates were all denominated in Renminbi. The cash deposits placed with banks generate interest at the prevailing market interest rates.

Foreign currency exposure

The Group mainly operates in the PRC and most of the transactions are conducted in Renminbi. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to bank deposits and trade receivables denominated in United States dollar and Hong Kong dollar. Foreign exchange risk also arises from sales transactions in foreign currencies with overseas customers which have been mostly conducted in United States dollars. The monetary assets of the Group were denominated in Hong Kong dollars, Renminbi and United States dollars. The Group has not implemented any hedging measures to mitigate the aforesaid foreign exchange risk.

Management Discussion and Analysis

Human resources

As at 30 June 2017, the number of employees of the Group was 650 (31 December 2016: 573). The increase in headcount was mainly from production function that was attributable to the opening of No. 3 and No. 4 workshops.

The total staff costs, including Directors' emoluments, amounted to approximately RMB13.2 million for the Review Period (the six months ended 30 June 2016: approximately RMB8.5 million).

The emoluments payable to the Directors are subject to their respective terms of engagement approved by the Remuneration Committee and the Nomination Committee, having regard to the operating results of the Group, the performance of individual Directors and comparable market statistics. The Group implements remuneration policy, bonus and share option scheme with reference to the performance of the Group and individual employees. The Group also provides insurances, medical benefits and retirement funds to employees so as to sustain the competitiveness of the Group.

Commitments and contingent liabilities

As at 30 June 2017, the Group did not have other material capital commitments. In addition, the Group did not have any material outstanding contingent liabilities. The capital commitments contracted for but not yet incurred and provided for as of 30 June 2017, amounted to approximately RMB12.2 million (31 December 2016: RMB18.4 million) and mainly comprised the committed expenditure of machines and equipments, and building and leasehold component for the integrated development centre.

Material acquisitions and disposals

During the six months ended 30 June 2017, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies.

The Group placed a refundable balance of RMB42.0 million at the PRC government in preparation for participating in the auction for a parcel of land close to our existing production facilities in 2015 and went on with the land acquisition for our No. 5 and No. 6 production workshops during the Review Period. As of the date of this report, no further consideration has been paid.

The Group intends to acquire a company in the PRC which is principally engaged in the production and sales of processed fruit products (the "Target Company"). The Target Company is based in the central part of the PRC and has its own production facilities. Through the acquisition, the Company can establish a production and distribution base in the central part of the PRC for further business expansion and development of subtropical processed fruit products. The Group is currently in the process of conducting legal and financial due diligence on the Target Company.

As at the date of this report, a non-legally-binding agreement has been entered into between the Group and the owners of the Target Company. Further details will be announced in accordance with the Listing Rules in due course once the intended acquisition is confirmed.

Management Discussion and Analysis

Principal risks and uncertainties

The Group is principally engaged in the sales and manufacture of processed fruits products and trading of fresh fruits. It will be exposed to a variety of key risks including credit risk, interest risk, liquidity risk, operational risk and market risk. The Group has also identified the following critical risks in connection with its business:

Risk in respect of Product Quality and Food Safety

The risk in respect of product quality and food safety refers to the defect in products or failure of meeting relevant standards, or the risk in respect of raw materials, production process and other product-related food safety issues.

Risk Management Measures: The Group is committed to provision of healthy and safe products for customers in strict compliance with international production standards and obtaining BRC(A+), IFS food (High), HALAL, QS, KOSHER and ISO22000 certificates for production facilities, quality control and management. The Group will continue to strengthen regulation over procurement of raw and auxiliary materials, selection of suppliers, training to staff on quality control.

Merger and Acquisition Risk

The Group may expand its production capacity and enrich its product category through acquiring other food processing and manufacturing enterprises in the next few years. Acquisitions may be subject to risks including unforeseeable litigations, conflict between the culture of acquisition target and existing culture, poor financial position of acquisition target, and excessive distraction of the Group's resources and management's concern in acquisition.

Risk Management Measures: The Group will engage professionals in acquisition to conduct due diligence and assess the acquisition targets to reduce potential risks of acquisitions including litigation risks and financial disputes. The Group may retain the original qualified management of the target group to ensure management stability of the target group as far as possible.

Brand Publicity Risk

The Group will continue its strategy to develop the OEM and own brand business in parallel. Brand publicity risk refers to the risk of brand reputation's (including the extent or coverage of brand influence) failure of meeting expectations due to lack of brand promotion strategy or supporting resources.

Risk Management Measures: The Group has vigorously consolidated its own brand product business, and engaged professional public relation companies to handle the possible critical incidents prejudicial to the Group's image. Internally, the Group has also arranged personnel to collect adverse reports on the Group and submit the same to the management in a prompt manner, and the management will deal with the matter in accordance with the policies and processes of the Group. The Group enhances its brand reputation and influence through proactively attending the industry forum and other activities as organised by the China Canned Food Industry Association. Moreover, the Group plans to engage professionals in brand building.

The above are not intended to be an exhaustive list of all principal risks and uncertainties facing the Group. These may change over time as new risks and uncertainties emerge and others cease to be of concern.

Auditor's Independent Review Report

羅兵咸永道

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF TIANYUN INTERNATIONAL HOLDINGS LIMITED
(incorporated in British Virgin Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 15 to 31, which comprises the interim condensed consolidated statement of financial position of Tianyun International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 August 2017

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	Note	Unaudited Six months ended 30 June 2017 RMB'000	 2016 RMB'000
Revenue	*7*	**343,289**	307,570
Cost of sales	*8*	**(250,506)**	(213,333)
Gross profit		**92,783**	94,237
Other income	*7*	**205**	365
Selling and distribution expenses	*8*	**(10,325)**	(5,147)
General and administrative expenses	*8*	**(14,368)**	(7,347)
Operating profit		**68,295**	82,108
Finance income		**326**	304
Finance costs		**(622)**	(1,933)
Finance costs – net	*9*	**(296)**	(1,629)
Profit before income tax		**67,999**	80,479
Income tax expense	*10*	**(15,653)**	(18,818)
Profit and total comprehensive income for the period attributable to owners of the Company		**52,346**	61,661
Earnings per share for profit attributable to owners of the Company (expressed in RMB cents)			
– Basic and diluted	*12*	**5.35**	6.17

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2017

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*13*	**223,931**	220,963
Leasehold land and land use rights	*13*	**57,701**	58,425
Prepayments	*14*	**42,000**	42,000
Total non-current assets		**323,632**	321,388
Current assets			
Inventories		**74,693**	65,119
Trade and other receivables	*14*	**107,939**	85,190
Cash and cash equivalents		**207,378**	224,001
Total current assets		**390,010**	374,310
Total assets		**713,642**	695,698
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*15*	**232,458**	236,114
Reserves		**363,204**	330,046
Total equity		**595,662**	566,160
LIABILITIES			
Non-current liabilities			
Other borrowings	*18*	**6,091**	13,677
Total non-current liabilities		**6,091**	13,677
Current liabilities			
Trade payables	*16*	**16,541**	14,731
Accruals and other payables	*17*	**11,914**	16,800
Amount due to a related company		**–**	5
Bank and other borrowings	*18*	**83,254**	83,516
Current income tax liabilities		**180**	809
Total current liabilities		**111,889**	115,861
Total liabilities		**117,980**	129,538
Total equity and liabilities		**713,642**	695,698

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Unaudited Attributable to owners of the Company						
	Share capital RMB'000	**Capital reserve RMB'000**	**Merger reserve RMB'000** (Note (a))	**Statutory reserve RMB'000** (Note (b))	**Share option reserve RMB'000**	**Retained earnings RMB'000**	**Total equity RMB'000**
Balance at 1 January 2017	**236,114**	**43,213**	**(3,100)**	**22,500**	**2,318**	**265,115**	**566,160**
Total comprehensive income for the period ended 30 June 2017							
Profit for the period	–	–	–	–	–	**52,346**	**52,346**
Total transactions with owners, recognised directly in equity							
Buy-back of shares (Note 15(d))	**(3,656)**	**2,194**	–	–	–	–	**(1,462)**
Dividends relating to 2016 paid in 2017	–	**(21,685)**	–	–	–	–	**(21,685)**
Employees share option scheme:							
– share-based compensation expenses	–	–	–	–	**303**	–	**303**
Total transactions with owners, recognised directly in equity	**(3,656)**	**(19,491)**	–	–	**303**	–	**(22,844)**
Balance at 30 June 2017	**232,458**	**23,722**	**(3,100)**	**22,500**	**2,621**	**317,461**	**595,662**

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Unaudited						
	Attributable to owners of the Company						
	Share capital RMB'000	Capital reserve RMB'000	Merger reserve RMB'000 (Note (a))	Statutory reserve RMB'000 (Note (b))	Share option reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2016	248,057	84,663	(3,100)	2,500	823	156,339	489,282
Total comprehensive income for the period ended 30 June 2016							
Profit for the period	–	–	–	–	–	61,661	61,661
Total transactions with owners, recognised directly in equity							
Transfers	–	–	–	20,000	–	(20,000)	–
Dividends relating to 2015 paid in 2016	–	–	–	–	–	(25,437)	(25,437)
Employees share option scheme:							
– share-based compensation expenses	–	–	–	–	538	–	538
Total transactions with owners, recognised directly in equity	–	–	–	20,000	538	(45,437)	(24,899)
Balance at 30 June 2016	248,057	84,663	(3,100)	22,500	1,361	172,563	526,044

Notes:

(a) The merger difference of the Group was created as a result of: (a) acquisition of two common control entities acquired in 2012; and (b) the difference between the consideration paid to the then owners for the acquisitions and the original investment of the then owners.

(b) According to the provisions of the articles of association of the Group's subsidiaries located in the PRC ("PRC subsidiaries"), the PRC subsidiaries shall first set aside 10% of the entity's profit attributable to owners after tax as indicated in their statutory financial statements for the statutory surplus reserve (except where the reserve has reached 50% of the entity's registered share capital) in each year. The PRC subsidiaries may also make appropriations from its profit attributable to shareholders to discretionary surplus reserve, provided it is approved by a resolution passed in a shareholders' general meeting. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends without the prior approval obtained from shareholders in a shareholders' general meeting under specific circumstances.

When the statutory surplus reserve is not sufficient to make good of any losses of the PRC subsidiaries from previous years, the current year profit attributable to owners shall be used to make good the losses before any allocations are set aside for the statutory surplus reserve. The statutory surplus reserve, the discretionary surplus reserve and the share premium of the PRC subsidiaries may be converted into share capital of the PRC subsidiaries provided it is approved by a resolution passed in a shareholders' general meeting and meets other regulatory requirements with the provision that the ending balance of the statutory surplus reserve does not fall below 25% of the registered share capital.

Statutory reserve as at 30 June 2017 represents the statutory surplus reserve of the PRC subsidiaries amounting to RMB22,500,000.

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Cash flows from operating activities		
Cash generated from operations	**42,430**	80,676
Interest paid	**(2,533)**	(1,933)
Income tax paid	**(16,282)**	(25,341)
Net cash generated from operating activities	**23,615**	53,402
Cash flows from investing activities		
Purchases of leasehold land and land use rights and property, plant and equipment	**(8,930)**	(52,905)
Prepayment paid for purchase of property, plant and equipment	**–**	(32,144)
Interest received	**326**	304
Net cash used in investing activities	**(8,604)**	(84,745)
Cash flows from financing activities		
Repayment to a related company	**(5)**	(5)
Proceeds from bank borrowing	**68,000**	68,000
Repayments of bank borrowing	**(68,000)**	(68,000)
Proceeds from loans from a leasing company	**–**	40,000
Repayments of loans from a leasing company	**(7,848)**	(3,000)
Dividends paid	**(21,685)**	(25,437)
Buy-back of shares	**(1,462)**	–
Net cash (used in)/generated from financing activities	**(31,000)**	11,558
Net decrease in cash and cash equivalents	**(15,989)**	(19,785)
Cash and cash equivalents at beginning of the period	**224,001**	226,995
Exchange (losses)/gains on cash and cash equivalents	**(634)**	2,473
Cash and cash equivalents at end of the period	**207,378**	209,683

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

1. General information

Tianyun International Holdings Limited (the "Company") was incorporated in the British Virgin Islands on 8 September 2011 with limited liability. The address of its registered office is Commerce House, Wickhams Cay 1, PO Box 3140, Road Town, Tortola, British Virgin Islands, VG1110.

The Company is an investment holding company. The Company and its subsidiaries (together the "Group") are principally engaged in the manufacturing and sales of processed fruits products and trading of fresh fruits.

The Company has its primarily listing on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017. The followings are other accounting policies which are relevant to the preparation of the condensed consolidated interim financial information for the six months ended 30 June 2017.

(a) Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

(b) The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2017 and currently relevant to the Group:

- Amendments to HKAS 12, "Income taxes"
- Amendments to HKAS 7, "Statement of cash flows"
- Amendments to HKFRS 12, "Disclosure of interest in other entities"

The Group has adopted these amendments to standards and the adoption of these amendments to standards did not have significant impacts on the Group's results and financial position.

3. Accounting policies (Continued)

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKFRS 1 (Amendments)	First time adoption of HKFRS	1 January 2018
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 4 (Amendments)	Insurance contracts	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 15 (Amendments)	Clarifications to HKFRS 15	1 January 2018
HKAS 28 (Amendments)	Investments in associates and joint ventures	1 January 2018
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 10, HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The directors of the Company are in the process of assessing the financial impact of the adoption of the above new standards and amendments to standards. The directors of the Company will adopt the new standards and amendments to standards when they become effective.

4. Estimates

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

5. Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's financial performance.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no significant changes in the risk management policies since the year end.

5.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding from an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping credit lines available at all time.

5. Financial risk management (Continued)

5.2 Liquidity risk (Continued)

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and exchange control.

Surplus cash held by the operating entities over and above balance required for working capital management is transferred to the Group finance. Group finance invests surplus cash mainly in time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the balance sheet date, the Group holds cash and bank balances of RMB207,378,000 (31 December 2016: RMB224,001,000) and trade receivables of RMB99,792,000 (31 December 2016: RMB82,663,000) that are expected to generate cash inflows for managing liquidity risk.

5.3 Fair value estimation

The fair values of the trade and other receivables, cash and cash equivalents, trade payables and other payables and accruals approximate their carrying amounts due to their short maturities.

The fair values of the bank and other borrowings approximate their carrying amounts as they bear interest rates that are market dependent.

6. Segment information

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker that are used to making strategic decisions. The chief operating decision-maker is identified as the chief executive officer of the Company.

The chief operating decision-maker assesses the performance of the Group based on a measure of profit after income tax and considers the Group in a single operating segment. Information reported to the chief operating decision-maker for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment – manufacturing and sales of processed fruit products and trading of fresh fruits, and segment information are not presented.

The Company is domiciled in the British Virgin Islands while the Group operates its business in the PRC. The Group's revenue of RMB308,857,000 and RMB281,292,000 was generated from customers in the PRC, and the Group's revenue of RMB34,432,000 and RMB26,278,000 was generated from overseas customers for the six months ended 30 June 2017 and 2016, respectively.

Segment assets and liabilities

No assets and liabilities are included in the Group's segment reporting that are submitted to and reviewed by the chief operating decision maker internally. Accordingly, no segment assets and liabilities are presented.

Information about major customers

External customers contribute over 5% of total revenue of the Group for any of the six months ended 30 June 2017 and 2016 are as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Customer A	**27,388**	4,935
Customer B	**20,337**	22,558
Customer C	**17,369**	19,074
Customer D	**7,897**	16,715

7. Revenue and other income

The Group is principally engaged in the manufacturing and sales of processed fruits products and trading of fresh fruits. Revenue recognised during the periods ended 30 June 2017 and 2016 are as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Revenue		
Domestic sales	**308,857**	281,292
Direct overseas sales	**34,432**	26,278
Total sale of goods	**343,289**	307,570
Other income		
Government subsidies	**205**	56
Others	**–**	309
	205	365

8. Operating profit

An analysis of the amounts presented as operating items in the condensed consolidated interim financial information is as below:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Auditors' remuneration	**800**	738
Cost of inventories sold	**233,404**	203,723
Depreciation of property, plant and equipment (Note 13)	**5,960**	3,836
Amortisation on land use right (Note 13)	**724**	725
Employee benefit expenses (including directors' emoluments)	**13,246**	8,453
Operating lease payments	**209**	220
Net exchange losses/(gains)	**1,330**	(5,302)
Land taxes, surcharges and other taxes	**4,249**	3,096

9. Finance costs, net

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Finance income		
Interest income on short-term bank deposits	**326**	304
Finance costs		
Interest expenses on the loans from a leasing company	**(961)**	–
Interest expenses on bank borrowings	**(1,572)**	(1,933)
Less: amounts capitalised on qualifying assets	**1,911**	–
	(622)	(1,933)
Finance costs, net	**(296)**	(1,629)

For the period ended 30 June 2017, the Group has capitalised borrowing costs amounting to RMB1,911,000 (six months ended 30 June 2016: Nil) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.4% per annum.

10. Income tax expense

The Company is incorporated in the BVI under the Business Companies Act of the BVI and, accordingly, are exempted from the BVI income tax.

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit generated in Hong Kong for six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

PRC corporate income tax has been provided at the rate of 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items which are not assessable or deductible for the PRC corporate income tax purpose. Certain subsidiaries of the Group are entitled to preferential tax incentives in the cities where the subsidiary is located.

The amount of taxation charged to the condensed consolidated interim statement of comprehensive income represents:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current income tax		
PRC corporate income tax	**15,653**	18,818

11. Dividends

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Final dividend paid during the period: 2016 final dividend HK$0.025 per ordinary share (2016: HK$0.03 per ordinary share)	**21,685**	25,437
Interim dividend declared subsequent to the period end: 2017 interim dividend HK$0.016 per ordinary share (2016: HK$0.016 per ordinary share)	**13,573**	13,819

The Board has declared that an interim dividend of HK1.6 cents per share for the six months ended 30 June 2017 to shareholders whose names appear in the Register of Members on 12 October 2017.

12. Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares deemed to be in issue during the periods.

	Six months ended 30 June	
	2017	2016
Profit attributable to owners of the Company (RMB$'000)	**52,346**	61,661
Weighted average number of ordinary shares in issue (thousand)	**977,641**	1,000,000
Basic earnings per share (RMB cents)	**5.35**	6.17

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 30 June 2017 and 2016, the Group has share options which may result in dilutive potential ordinary shares. Its calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share prices of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the share options.

Diluted earnings per shares for the period ended 30 June 2017 and 2016 equal basic earnings per share as the exercise of outstanding share options would be anti-dilutive.

13. Property, plant and equipment and leasehold land and land use rights

	Leasehold land and land use rights RMB'000	Building and leasehold improvements RMB'000	Furniture and fixtures RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office and computer equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Six months ended 30 June 2017								
Net book value	**58,425**	**95,834**	**147**	**47,421**	**3,153**	**2,737**	**71,671**	**279,388**
Opening amount as at 1 January 2017								
Additions	**–**	**148**	**–**	**1,712**	**–**	**485**	**6,585**	**8,930**
Transfer	**–**	**4,050**	**–**	**439**	**–**	**–**	**(4,489)**	**–**
Disposals	**–**	**–**	**–**	**–**	**–**	**(2)**	**–**	**(2)**
Depreciation and amortisation (Note 8)	**(724)**	**(2,543)**	**(16)**	**(2,844)**	**(218)**	**(339)**	**–**	**(6,684)**
Closing amount as at 30 June 2017	**57,701**	**97,489**	**131**	**46,728**	**2,935**	**2,881**	**73,767**	**281,632**
Six months ended 30 June 2016								
Net book value	59,874	53,377	64	17,863	2,360	1,926	51,335	186,799
Opening amount as at 1 January 2016								
Additions	–	1,645	223	50,550	1,024	510	42,469	96,421
Transfer	–	39,973	–	15,230	–	–	(55,203)	–
Disposals	–	–	(86)	(28,687)	–	(117)	–	(28,890)
Depreciation and amortisation (Note 8)	(725)	(1,717)	(10)	(1,674)	(189)	(246)	–	(4,561)
Closing amount as at 30 June 2016	59,149	93,278	191	53,282	3,195	2,073	38,601	249,769

Construction in progress as at 30 June 2017 mainly comprises the integrated development centre being constructed in the PRC.

As at 30 June 2017 and 31 December 2016, the net book value of land and buildings of RMB75,831,000 (As at 31 December 2016: RMB77,030,000) and plant and machinery, office and equipment and furniture and fixtures of RMB25,231,000 (As at 31 December 2016: RMB28,890,000) were pledged to a bank and a leasing company for securing the Group's general banking facilities and the loans from a leasing company, respectively (Note 18).

During the period ended 30 June 2017, the Group has capitalised borrowing costs amounting to RMB1,911,000 (for the six months ended 30 June 2016: Nil) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.4% per annum.

14. Trade and other receivables

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade receivables (Note a)	**99,792**	82,663
Prepayments	**43,088**	42,943
Deposits and other receivables	**7,059**	1,584
	149,939	127,190
Less: non-current portion		
Prepayments for land use rights	**(42,000)**	(42,000)
	107,939	85,190

(a) Trade receivables

The Group's credit terms granted to wholesale customers generally ranged from 30 to 60 days. As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade receivables based on invoice date is as follows:

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Less than 30 days	**65,428**	55,431
31 to 60 days	**32,656**	26,499
More than 60 days	**1,708**	733
	99,792	82,663

No provision for impairment of trade receivables was made as at 30 June 2017 and 31 December 2016.

(b) The carrying amounts of trade and other receivables approximate their fair values.

15. Share capital

Authorised ordinary shares

Under the BVI Companies Act, there is no concept of authorised capital. The Company is authorised to issue an unlimited number of shares and the shares do not have any par value.

Issued and fully paid ordinary shares

	Number of ordinary share	Share capital HK$'000	Equivalent share capital RMB'000
As at 1 January 2017	983,000,000	296,309	236,114
Buy-back of shares (Note (d))	(5,538,000)	(4,098)	(3,656)
As at 30 June 2017	977,462,000	292,211	232,458
As at 1 January 2016 and 30 June 2016	1,000,000,000	310,072	248,057

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

		Number of share options				
Expiry date	Exercise price in HK$ per share option	As at 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2017
31 December 2020	HK$1.70	6,000,000	–	–	–	6,000,000
31 December 2021	HK$0.97	7,700,000	–	–	–	7,700,000

Note:

(a) 6,000,000 share options at an exercise price of HK$1.70 each and 7,700,000 share options at an exercise price of HK$0.97 each were granted on 6 October 2015 and 21 April 2016 respectively.

(b) For the six months ended 30 June 2017, no share options were lapsed (for the six months ended 30 June 2016: Nil).

(c) For the six months ended 30 June 2017, a total share option expenses of RMB303,000 were recognised and included in employee benefit expenses (for the six months ended 30 June 2016: RMB538,000).

(d) The Company had 3,424,000 ordinary shares which were repurchased for a consideration of approximately RMB2,194,000 but not cancelled yet as at 31 December 2016. During the period ended 30 June 2017, the Company further repurchased 2,114,000 of its own ordinary shares on The Stock Exchange of Hong Kong Limited at a weighted average price of approximately RMB0.69 per share, for a total consideration of approximately RMB1,462,000. These repurchased 5,538,000 ordinary shares were cancelled during the period and their total consideration of RMB3,656,000 was deducted in share capital.

16. Trade payables

The ageing analysis of the trade payables based on invoice date is as follows:

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Less than 30 days	**13,477**	11,184
31 to 90 days	**1,019**	2,701
91 to 180 days	**778**	724
181 to 365 days	**1,220**	122
Over 365 days	**47**	–
	16,541	14,731

The carrying amounts of trade payables approximate their fair values.

17. Accruals and other payables

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Accrued employee benefit expenses	**3,594**	4,286
Land taxes, surcharges and other taxes payables	**2,138**	4,900
Other payables for purchases of property, plant and equipment	**1,906**	2,762
Others	**4,276**	4,852
	11,914	16,800

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

18. Bank and other borrowings

	30 June 2017			31 December 2016		
	Bank borrowing RMB'000	**Loans from a leasing company RMB'000**	**Total RMB'000**	Bank borrowing RMB'000	Loans from a leasing company RMB'000	Total RMB'000
Within 1 year	**68,000**	**15,254**	**83,254**	68,000	15,516	83,516
Between 1 and 2 years	**–**	**6,091**	**6,091**	–	13,677	13,677
	68,000	**21,345**	**89,345**	68,000	29,193	97,193

Movements in bank and other borrowings are analysed as follows:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Opening amount at 1 January	**97,193**	68,000
New bank and other borrowings obtained	**68,000**	108,000
Repayments of borrowings	**(75,848)**	(71,000)
Closing amount at 30 June	**89,345**	105,000

Interest expense on bank and other borrowings for the six months ended 30 June 2017 is approximately RMB2,533,000 (for the six months ended 30 June 2016: RMB1,933,000), out of which RMB1,911,000 was capitalised on qualified assets (for the six months ended 30 June 2016: Nil).

19. Contingencies

The Group did not have any material contingent liabilities as at 30 June 2017 and 31 December 2016.

20. Commitments

(i) Operating lease commitments – Group as lessee

The Group leases an office under an operating lease agreement with lease term of 2 years. The future aggregate minimum lease payments under the operating lease agreement as at the end of reporting date are as follows:

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Not later than 1 year	**112**	288

20. Commitments (Continued)

(ii) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Property, plant and equipment	**12,234**	18,372

21. Related party transactions

The ultimate and immediate holding company of the Company is Wealthy Active Limited, a company incorporated in the British Virgin Islands with limited liability. The ultimate controlling shareholder of Wealthy Active Limited is Mr. Yang Ziyuan.

Key management compensation

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is shown below:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Basic salaries, allowances and benefits in kind	**1,097**	990
Social security costs	**35**	56
Defined contribution - MPF	**16**	15
Share-based compensation expenses	**54**	94
	1,202	1,155

22. Subsequent event

In August 2017, the carrying amount of construction in progress as at 30 June 2017 related to the integrated development centre in the PRC was transferred to property, plant and equipment and investment property, based on the management's intention for the use of the property.

Other Information

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2017, the Company repurchased 2,114,000 of its own ordinary shares on the Stock Exchange of Hong Kong Limited for a total consideration of approximately RMB1.46 million. The repurchases were effected by the Directors for the enhancement of shareholders' value. Details of the shares repurchased are as follows:

Month of repurchase	Number of shares	Repurchase price per share Highest (HK$)	Repurchase price per share Lowest (HK$)
Jan 2017	2,114,000	0.81	0.75

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Review Period. Details of the share repurchases and other movements in the share capital of the Company during the Review Period are set out in note 15 to the condensed consolidated interim financial information.

Directors' interest and chief executive's interests and short positions in shares, underlying shares and debentures

As at 30 June 2017, the interests and short positions of our Directors and chief executive of our Company in the Shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions), or required, pursuant to section 352 of the SFO, to be entered in the register referred to therein are as follows:

Long Positions in the Shares of the Company

Name of shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Yang Ziyuan	Interest in a controlled corporation	448,067,000 Shares (L) *(note 1)*	45.84%
Ms. Chu Yinghong	Interest of spouse	448,067,000 Shares (L) *(note 2)*	45.84%
Mr. Sun Xingyu	Interest in a controlled corporation	110,000,000 Shares (L) *(note 3)*	11.25%
Mr. Tsang Yuen Wai	Beneficial owner	192,000 Shares (L)	0.02%

Notes:

1 The shares are held by Wealthy Active Limited, a company incorporated in the BVI and is wholly-owned by Mr. Yang. Mr. Yang is deemed to be interested in these shares under the SFO.

2 Ms. Chu Yinghong is the spouse of Mr. Yang and is deemed to be interested in the shares held by Mr. Yang.

3 The shares are held by Wealthy Maker Limited, a company incorporated in the BVI and is wholly-owned by Mr. Sun. Mr. Sun is deemed to be interested in these shares under the SFO.

The letter "L" denotes long position

Other Information

Save as disclosed above, as at 30 June 2017, none of the Directors and the chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial shareholders' interests and short positions in Shares and underlying Shares

As at 30 June 2017, the persons or corporations other than Directors or chief executive of the Company, who had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long Position in the Shares of the Company

Name of shareholder	Capacity/Nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding
Wealthy Active Limited *(note 1)*	Beneficial owner	448,067,000 Shares (L)	45.84%
Wealthy Maker Limited *(note 2)*	Beneficial owner	110,000,000 Shares (L)	11.25%
Sino Red Limited *(note 3)*	Beneficial owner	76,111,000 Shares (L)	7.8%

Notes:

1. Wealthy Active Limited is a company incorporated in the BVI and is wholly-owned by Mr. Yang.

2. Wealthy Maker Limited is a company incorporated in the BVI and is wholly-owned by Mr. Sun.

3. Sino Red Limited is a company incorporated in the BVI and is wholly-owned by Ocean Equity Partners Fund L.P..

The letter "L" denotes long position.

Save as disclosed above, as at 30 June 2017 so far as is known to the Directors or chief executive of the Company, no other person (other than the Directors and chief executive of the Company) had any interest and short positions in the shares, underlying shares and debentures of the Company which were required to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or required to be recorded in the registered required under section 336 of the SFO as at the date of this report.

Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") with effect from the Listing Date.

The Share Option Scheme is a share incentive scheme and is established to enable the Company to grant options to the eligible participants as set out below as incentives or rewards for their contribution they had or may have made to the Group.

Other Information

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine to the following eligible participants:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any directors (including independent non-executive directors) of the Company or any of its subsidiaries;

(iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and

(iv) any such other persons who in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of its subsidiaries.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following the completion of the global offering, being 100,000,000 Shares.

Unless approved by the Shareholders, the total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant.

Upon acceptance of the option, the grantee shall pay HK$1.00 (or an equivalent amount in RMB) to the Company by way of consideration for the grant.

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board may in its absolute discretion determine, save that such price will be at least the higher of:

(i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; and

(ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted.

The Scheme will remain effective for a period of ten years commencing from 16 June 2015. Details of the Scheme are set out in note 15 to the condensed consolidated interim financial information.

Movements of the Company's share options during the six months ended 30 June 2017 were as follows:

Grantee		Number of share options: Outstanding 01/01/2017	Exercised during the period ended 30/06/2017	Forfeited during the period ended 30/06/2017	Outstanding at 30/06/2017	Date of Grant	Exercised period	Exercise price (HK$)	Price of the Company's share immediately before the grant date
Employees	Key management	1,020,000	–	–	1,020,000	06/10/2015	*Note 1*	1.70	1.70
	Other Employees	4,980,000	–	–	4,980,000	06/10/2015	*Note 1*	1.70	1.70
		6,000,000	–	–	6,000,000				
Employees	Key management	1,410,000	–	–	1,410,000	21/04/2016	*Note 2*	0.97	0.93
	Other Employees	6,290,000	–	–	6,290,000	21/04/2016	*Note 2*	0.97	0.93
		7,700,000	–	–	7,700,000				
	Total:	13,700,000	–	–	13,700,000				

Notes:

1 The validity periods to exercise the share options are as follows:

(a) 50% of the share options shall be exercisable during the period from 1 January 2016 to 31 December 2018 (upon vesting of the same on 31 December 2015 on the condition that the relevant grantee is still the employee of the Group at the material time);

(b) 25% of the share options shall be exercisable during the period from 1 January 2017 to 31 December 2019 (upon vesting of the same on 31 December 2016 on the condition that the relevant grantee is still the employee of the Group at the material time); and

(c) 25% of the share options shall be exercisable during the period from 1 January 2018 to 31 December 2020 (upon vesting of the same on 31 December 2017 on the condition that the relevant grantee is still the employee of the Group at the material time).

2 The validity periods to exercise the share options are as follows:

(a) 50% of the share options shall be exercisable during the period from 1 January 2017 to 31 December 2019 (upon vesting of the same on 31 December 2016 on the condition that the relevant grantee is still the employee of the Group at the material time);

(b) 25% of the share options shall be exercisable during the period from 1 January 2018 to 31 December 2020 (upon vesting of the same on 31 December 2017 on the condition that the relevant grantee is still the employee of the Group at the material time); and

(c) 25% of the share options shall be exercisable during the period from 1 January 2019 to 31 December 2021 (upon vesting of the same on 31 December 2018 on the condition that the relevant grantee is still the employee of the Group at the material time).

Interim Dividend

The Board of Directors has resolved to pay an interim dividend for the six months ended 30 June 2017 of HK1.6 cents per share (30 June 2016: HK1.6 cents per share). The dividend will be payable on or around 17 November 2017 to shareholders whose names appear in the Company's Register of Members at the close of business on Thursday, 12 October 2017, being the record date for determination of entitlement to the interim dividend.

Other Information

Compliance with the Corporate Governance Code

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of its Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance since the Listing Date.

Under code provision A.2.1 of the CG Code as set out in Appendix 14 of the Listing Rules, the responsibilities between the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yang Ziyuan is our chief executive officer, and he also performs as the chairman of our Board as he has considerable experience in the fruit processing industry. The Board believes that vesting the roles of both the chairman of our Board and the chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group. Save for the aforesaid, the Board is of the view that the Company has complied with the code provisions as set out in the CG Code during the Review Period and up to the date of this report.

Compliance with the Model Code

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard as set out in the Model Code. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the requirements of the Model Code during the Review Period and up to the date of this report.

Audit Committee

The Company has established an Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee is to serve as a focal point for communication between other directors, the external auditors, and the management as their duties relate to financial and other reporting, internal controls and the audits; and to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, to satisfy themselves as to the effectiveness of the Company's internal controls and as to the efficiency of the audits. The primary duties of the Audit Committee is (i) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal and (ii) to monitor the integrity of financial statements of the Company and the Company's annual report and accounts and half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained therein. The Audit Committee comprises three independent non-executive directors, namely Mr. Tsang Yuen Wai (Chairman), Mr. Liang Zhongkang and Ms. Hui Yung Yung Janet.

Review of interim results

The unaudited interim results of the Group for the six months ended 30 June 2017 have been reviewed by the Audit Committee and PricewaterhouseCoopers, the external auditor of the Company, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Acknowledgement

On behalf of the Board, I would like to express my sincere gratitude to all our staff for their dedication and contribution to the Group. In addition, I would like to thank all our Shareholders and investors for their support and our customers for their patronage.

On behalf of the Board
Yang Ziyuan
Chairman and Chief Executive Officer

Hong Kong, 29 August 2017