Tianyun International Holdings Limited

天韵國際控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

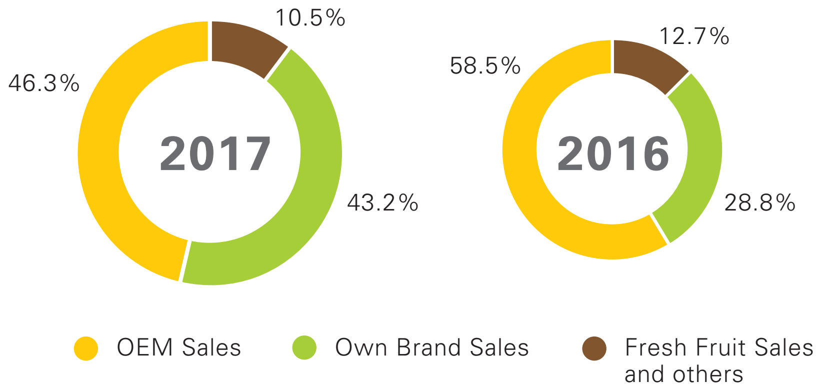
Stock Code : 6836.HK

ANNUAL REPORT 2017

Contents

Financial Highlights

Revenue by Business Segment



Revenue (RMB million)

2017	745.5
2016	653.5

Gross Profit (RMB million)

2017	204.3
2016	199.4

Adjusted Gross Profit (RMB million) Note 1

2017	203.3
2016	192.9

Net Profit (RMB million)

2017	123.6
2016	128.8

Adjusted Net Profit (RMB million) Note 2

2017	126.4
2016	115.4

Gross Profit Margin (%)

2017	27.4%
2016	30.5%

Adjusted Gross Profit Margin (%)

2017	27.3%
2016	29.5%

Net Profit Margin (%)

2017	16.6%
2016	19.7%

Adjusted Net Profit Margin (%)

2017	17.0%
2016	17.7%

Earning Per Share Note 3 (HK$)

2017	2016
$0.151	$0.145

Dividend Per Share (HK cents)

2017	2016
4.2 cents	4.1 cents

Dividend Yield Note 4 (%)

2017	2016
3.0%	5.6%

Note 1: Calculated based on gross profit excluding release of provision for social insurance contributions.

Note 2: Calculated based on net profit excluding release of provision for social insurance contributions, foreign exchange difference, brand building expenses, fair value difference on convertible bond and investment properties, and transaction costs for issuance of convertibles bond.

Note 3: Expressed in HK$ using the respective year end RMB versus HKD exchange rates. Earnings per share (expressed in RMB) was 0.129 and 0.126 in 2016 and 2017 respectively.

Note 4: Calculated based on the total dividend per share (being the interim and proposed final dividend) in the respective year divided by the last closing share price before the respective annual results announcement date.

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Tianyun International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present our annual report for the year ended 31 December 2017 (the "Year under Review").

During the Year under Review, through the active contributions and tireless efforts from the Group's entire staff team and our partners, we achieved excellent results in the areas of brand reputation, new product categories, industrial partnerships, strategic investments and future development strategies. During the year, the Group rapidly expanded the geographical coverage of our own brand products, which brought robust growth momentum to the sales of our own brand. During the Year under Review, total revenue and gross profit increased by 14.1% and 2.5% to RMB745.5 million and RMB204.3 million respectively. Net profit was RMB123.6 million and earning per share (expressed in HK$) increased 4.1% to HK$0.151. Revenue from our own brand business increased by 71.4% to RMB322.1 million. The Group has successfully transformed into consumer goods enterprise with substantial business segment from its own brand.

The PRC government has consistently given great attention to food safety work, and has demanded an extensive drive in supply side structural reform, promoting high quality development in the agricultural and food industries, so as to provide to the general public more quality, safe, nutritious and healthy foods. In particular, the report of the 19th National Congress has put forth a specific food safety strategy, extensively raising requirements from source, production to regulation and enforcement, in order to ensure that public consumers dine with peace of mind. In the past few years, the government has joined forces in working with various local departments, achieving markedly effective results on food safety work in China, while further raising consumer confidence on food in China.

In the spirit of our highest principle to produce safe and healthy foods, the Group is dedicated to provide natural and delicious products for our customers. Internationally, 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 the only growth enterprise in China's processed fruit industry to be recognised for its excellence. The award is an important recognition of our active, innovative research and development and commitment to product safety and quality requirements. As for the local government level, thanks to our excellent quality management system, the Group successfully passed stage after stage of review and assessment, receiving the highest honour of the Mayor's Quality Award bestowed by Linyi City of Shandong Province for the first time, becoming the only food production enterprise of the municipality to receive the award in 2017.

Meanwhile, as one of the food enterprises with the most complete quality certifications, the Group 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. Within China, the Group has become the first fruit processor in China's fruit processing industry authorised to place the "Zero Added Preservative Canned Products" label for our products, obtaining a high degree of market recognition. At the same time, the Group was approved as a "Equal production line; Equal standard; Equal quality" food production and export enterprise, having supplied products of equivalent quality to domestic and international markets, which allows both global and local consumers to enjoy higher quality products which are "Made in China".

Chairman's Statement

Since its listing, the Group has maintained a strategy of parallel development of our own brand and OEM business, and has made strong efforts in developing our own brands of quality processed food products with high market recognition. Driven by our own brands "繽果時代 (Bingo Times)", "天同時代 (Tiantong Times)" and "果小懶", we recorded rapid growth, allowing the Group to successfully transform into a processed fruit product enterprise with our own quality brands. Closely keeping pace with the development trends in e-commerce, we have also continued to invest resources in expanding online sales channels during the Year under Review, and successfully utilised new media in conducting precise marketing, comprehensively building brand image for our own products. During the Year under Review, revenue from our online sales experienced substantial growth, realising high efficiency sales in e-commerce platforms such as Tmall and WeChat business.

For traditional offline sales channels, during the year, the Group was invited to participate in the Food & Drinks Fairs held in spring and autumn (the "Food & Drinks Fairs"), which are considered the bellwether of the food industry in China. By virtue of our natural and quality products, we gained the attention of a host of clients and businesses, promoting direct communication and exchange with dealers and distributors across China, rapidly expanding the geographical coverage of our own brand products, successfully increasing the number of regional exclusive distributors to approximately 184, and laying a good foundation for exponential growth of sales of the Group's own brand. Meanwhile, through active participation in domestic and international food expositions, the Group also jointly organised promotional activities with our distributors, with emphasis on driving the building of a group of test markets. The Group implemented a sales incentive scheme for distributors to encourage sales enthusiasm of merchants, strengthening interaction and cooperation with distributors and further realising comprehensive coverage of marketing results. During the Year under Review, the Group has also expanded our chain superstore channels, successfully landing in chain supermarkets such as RT-Mart, CR Vanguard and Jinan Hualian, such that the sales network of our own brand products further covers 21 provinces, direct-controlled municipalities and autonomous regions in China, achieving certain level of scale and coverage in the domestic offline market.

During the Year under Review, we have continued to promote product upgrade and drive active product research and development, and innovation. The Group entered into industry-university research collaboration agreements with several universities in China, and is set to conduct comprehensive partnerships in fields encompassing scientific research, innovative development, education, and talent training, and establish an industry-university research base that includes sharing of research results and big data to support the sustainability of scientific research. Further, the Group has entered into a strategic partnership with a renowned food research institute in Japan to relentlessly develop unique and innovative processed foods targeted at different modes of consumption, stages of life and market trends in the pursuit of healthy diets. With strong technological support, we expect to launch a greater variety of healthy snacks with richer flavour and texture in future, so as to satisfy the pursuit for quality processed foods by the consumers at large.

Chairman's Statement

With the rapid expansion of the Group's own brand business, the Group entered into a sale and purchase agreement for the acquisition of Tiantong Foods (Yichang) Ltd. (天同食品(宜昌)有限公司) located in Dangyang City of Hubei Province (the "Hubei Project") and successfully completed the acquisition in January 2018. The project possesses unique geographical advantage, as well as various international accreditations relating to its production equipment, quality control and management system. Through this acquisition, the Group will establish a production and distribution base in the central region of China for conducting business expansion, so as to significantly increase the Group's production capacity of processed fruits in the next 3 years. At the same time, the acquisition of the Hubei Project includes its own land use rights of 101mu of land and production facility with 26,000 square metres of gross floor area, among which is a plant possessing 12 production lines, an office building, a warehouse and environmental protection and staff facilities, complementing the Group's production capacity in the temperate climate region of Shandong province. Our production facilities and production efficiency will improve significantly, and we will be dedicated to expanding the Group's market share in the central China market and the processed fruit market in the subtropical climate zone segment, raising the synergy brought about by the acquisition.

Besides actively developing our domestic businesses, we have also consistently sought opportunities to tap into the international market, as we are dedicated to expanding the Group's businesses to the fields of functional beverages, organic foods, healthy snacks, baby foods and food technology, exploring with international brands and renowned food businesses opportunities to share rich resources in marketing, management and product development. In January 2018, the Group entered into a strategic cooperation and purchase agreements with Tai Wei Beverage Joint Stock Company Limited and Tai Wei (Guangzhou) Co. Ltd (泰威飲料股份有限公司) ("Taiwei Group"). Both parties agreed to be strategic partners for the next decade, and jointly produce and sell the X-Bear series of energy drinks (熊霸激能系列飲料) ("X-Bear"). It is expected that the functional and sports beverage market in China will, under the general trend of consumption upgrade and increasing health consciousness in China, maintain a rapid growth momentum. This partnership will horizontally extend the Group's product line, and is most vital to expand the Group's income sources, capture market opportunities and drive overall business growth. During the Year under Review, the Group also successfully signed a memorandum of understanding with Homemade Harvey Operating, LLC ("Homemade Harvey"), a renowned and quality regional organic food business in the United States, for an intended acquisition of 51% equity interest in Homemade Harvey. If the acquisition is eventually completed, we are confident that, with the consistent belief and persistence of both parties on healthy and safe processed foods, it would help promote synergy and raise the Group's brand image and international profile, and it would be the first step in the Group's journey to become an international processed food enterprise.

During the Year under Review and up to the date of this report, the Group also made a major breakthrough in the capital market. In November 2017 and January 2018, the Group successfully issued convertible bonds in an aggregate principal amount of US$13,000,000 to Guotai Junan Finance (Hong Kong) Limited ("Guotai Junan") at an initial conversion price of HK$1.58 (the conversion price represents premiums of approximately 12.9% and 26.4% respectively on the closing share prices quoted on the Stock Exchange on the subscription dates). The funds raised will help us develop more innovative products, add new product categories, explore suitable strategic merger and acquisition opportunities, and promote industrial partnerships, and will inject a strong stimulus in our future expansion and development of the businesses of our own brands. During the Year under Review, as chairman of the Group and the controlling shareholder, I have also purchased company shares from the open market numerous times, fully reflecting my confidence in Tianyun International's future and development potential.

Chairman's Statement

In the past few years, the Group has successfully developed into a major seller and manufacturer of processed fruit products in China, and received a high level of recognition from domestic and international clients and partners. The year of 2018 will be the 15th anniversary of the formal establishment of Shandong Tiantong Food Co., Ltd., and we are grateful for the years of confidence and support from our many clients and partners. In the face of brand new opportunities in the market, we will rely on a comprehensive upgrading brand strategy and a continuously improving distribution network as we put further efforts into the aspects of product positioning, brand promotion, technical development, marketing channels, food safety and brand building, in order to help the Group to compete positively in the market, and stand out with innovation and quality.

Looking ahead to 2018, the Group will continue to make great efforts in developing innovative new products, enriching our product line, fulfilling the diversified demands of consumers. Meanwhile, leveraging on the competitive advantages of our present businesses, we will explore de-seasonalised modes of production and operation, tapping further into technological and cost advantages, so as to bring innovative healthy and safe foods to customers, and satisfactory returns to investors, as well as maintain sustainable, rapid and healthy business development.

In closing, on behalf of the Board, I would like to extend my sincere gratitude to our shareholders, investors, customers and business partners for their constant support and trust. I would also like to thank our management team and staff, who work with steadfast belief and rich industrial experience and persistently make contributions to the development of the Group. We will carry on our corporate principles consistently, continue to adopt the most stringent manufacturing procedures to produce safe and healthy processed food products, provide customers with high-quality and reliable foods, and maximise returns for our shareholders.

Sincerely,
Yang Ziyuan
Chairman and Chief Executive Officer

29 March 2018

Environmental, Social and Governance Report

Concept of Contents and Reporting Principles

The Environmental, Social and Governance Report mainly reports and reviews the environmental, social and governance performance of the Company's three major business operations, including OEM, own brands and fresh fruits. The scope of the disclosure covers the production base of the Group located in Linyi City, Shandong Province, China. With reference to the ESG Reporting Guide issued by Stock Exchange, the Group will report various data and policies of the Group for the Year under Review.

Being committed to providing consumers with natural, safe, healthy, delicious, nutritious and convenient ready-to-eat processed fruit products, the Group has consistently upheld the principles of sustainable development and green production. In 2017, we strived to build an environmentally friendly enterprise with enhancement of energy usage efficiency, implementation of various emissions reduction measures, and improvement in resource usage efficiency. Through refining our corporate code of production operations process, our safety code and our staff safety code, we made comprehensive improvements to the safety awareness and corporate belonging among our staff. We also organised a series of community care activities to do our utmost in contributing to society. In this section, we will elaborate the Group's vision of sustainable development and performance in response to the expectations of the public at large.

About the Group

During the Year under Review, the Group managed to achieve breakthroughs in various aspects ranging from brand development, brand building, technological advancement, production standards innovation, economic and social value addition, energy-saving, consumption reduction and emissions reduction and ecology protection to fulfilling our social responsibilities. Meanwhile, thanks to the concerted efforts of the entire staff and our excellent quality management system, the Company successfully passed review and assessment for the highest honour of the Mayor's Quality Award bestowed by Linyi Municipality of Shandong in 2017.

As one of the food enterprises with the most comprehensive quality certifications, the Group has always been dedicated to providing healthy and safe products for our customers, adhering at all times to stringent international production standards and are accredited with BRC (A+), IFS Food (High), HALAL, KOSHER, SC, FDA, BSCI, WCA and ISO22000, HACCP in respect of our production facilities, quality control and management. The Group has also passed the internal food production standard reviews and audits conducted by some of the UK and US supermarket chains.

Within China, the Group has been supplying products of equivalent quality to domestic and international markets as a "Equal production line; Equal standard; Equal quality" food production and export enterprise, while the Group's own brands of quality processed food products have obtained 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 fruit processor in China's fruit processing industry to place the "Zero Added Preservatives" label on its products. In addition, the Company was ranked in the "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 growing enterprise in China's processed fruit industry to be recognised for its excellence.

As we work to ensure product quality and secure corporate development, we are also concerned with the impact of the Group's operations on the environment. We are always dedicated to improving our environmental management standards, implementing various environmental protection measures, and raising our energy usage efficiency. The Group persists in fulfilling our corporate social responsibilities, sharing the success of economic development with the communities, and actively inspiring society towards sustainable development.

Environmental, Social and Governance Report

Performance in 2017

Summary of Performance Highlights (Up to 31 December 2017)

NP

Overall revenue:
RMB745.5 million;

Net profit:
RMB123.6 million;

Annual dividend
HK4.2 cents/share;
Payout ratio of 27.3%

Revenue from our own brands segment: RMB322.1 million; growth of 71.4% over the past year

Distributors of our own brands: 184;
Geographical coverage: 21 provinces, direct-controlled municipalities and autonomous regions in the PRC as well as the Hong Kong and Macau markets

Overall greenhouse gas emissions:
10,327.7
tonnes of CO_2e

Total employees:
624

Employee turnover rate:
4.2%

Products to be recalled in 2017:
0 cases

Environmental, Social and Governance Report

Coexistence with Nature

Environment quality and food quality go hand in hand. We believe that healthy, nutritious and quality products can only be produced under a good natural environment, which is why we have always been highly concerned with the impact of our business on the environment and natural resources, and we have been relentlessly focusing on environmental protection measures to mitigate any potential impacts that our operations have on the environment.

During the Year under Review, the Group had no events that resulted in adverse impact on the environment.

The Group is committed to an environmentally friendly and safe production process, which includes higher overall energy efficiency and reduced production of pollutants and waste, ensuring that while our products deliver healthiness to consumers, our production reduces pressure on the environment at the same time. To achieve this goal, the Group has invested resources in raising facilities standards and processing capacity, so that we lead other industry players in all aspects in respect of environmental protection facilities and systems.

Leading waste and wastewater treatment facilities

The Group achieved good performance in organic solid waste treatment and production of domestic sewage effluent mainly through the adoption of numerous measures and implementing stringent management control, including:

1. Local centralised heating, improving energy structure and improving effective energy usage rate;

2. Environmental greenification by tree planting on the grounds of our facilities and in the surrounding areas;

3. Utilisation of advanced systems for treatment of production wastewater, domestic sewage and plant sewage to ensure that the strictest standards of discharge are attained;

4. Formulating and implementing waste handling processes to ensure proper handling of waste without adding pressure on the environment.

Recycling of wastewater

On raising resource efficiency, the Group manages its production activity reasonably to avoid low efficiency and high consumption of energy, implementing recycling of large volumes of water in the sterilisation and pre-boiling stage and conducting water saving campaigns, while our sewage treatment facilities are built with anti-corrosive, heat-resistant materials as well as the adoption of an effective leak-proof drainage system in building a separate drainage system for stormwater and wastewater. Thanks to our tireless efforts, the Company has successfully realised the "Three reductions":

1. Reduction in consumption of natural gas resource per tonne of production;

2. Reduction in consumption of water resource per tonne of production;

3. Reduction in production and discharge of pollutants.

Further, the Group has continued to make improvements in wastewater treatment and energy savings. The quality of effluent from our sewage treatment plant is stable, ensuring that all wastewater complies with the requirements of the Water Pollution Prevention and Control Law of the PRC and local effluent standards before being discharged into the municipal sewage network. The wastewater treatment facility is designed by a professional team from the Harbin Institute of Technology, who leads the field of sewage treatment in China, and effectively reduces the content of Chemical Oxygen Demand ("COD"), ammonium nitrogen and other indicators, ensuring that wastewater of our production lines do not bring about any adverse impact on the environment. In addition, all sewage treatment plants have installed a 24-hour online wastewater discharge monitoring system, giving us real time access to the quality of wastewater discharged.

The Group has sustained more investment in the upgrade of wastewater and waste treatment facilities. New facilities not only cement a solid foundation for sustained capacity growth in future and gradual expansion of business scale, but also demonstrate the Group's commitment to environmental protection and resolve in contributing to sustainable development.

Environmental, Social and Governance Report

Plant facilities upgrading and increasing efficiency

During the Year under Review, the gas boiler used by the Group is the most advanced energy-saving condensing heat recovery boiler. The boiler has energy saving and eco-friendly functions, and can reduce heat loss and exhaust gas temperature, thereby enhancing its thermal efficiency and energy efficiency and effectively lowering the operating costs. In addition, clean and environmental friendly solar water heaters have been installed in all staff dormitories to utilise renewable energy and reduce carbon dioxide emissions as far as possible.

Energy saving

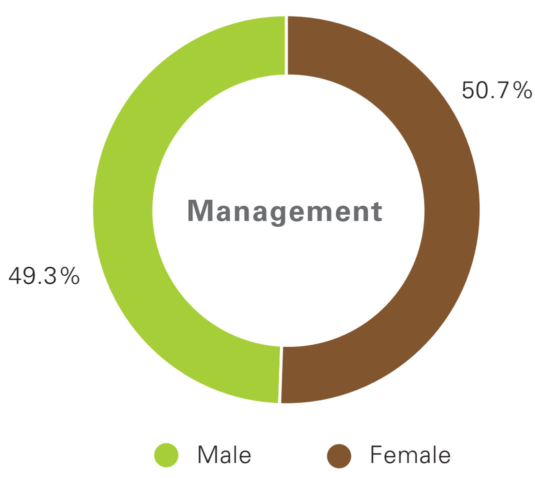
The Group has continued to strictly comply with the Renewable Energy Law of the PRC; by (i) comprehensively implementing energy saving guidelines, policies, regulations and standards; (ii) regularly reviewing various energy consumption indices and energy saving indicators of the Company; (iii) committedly promoting energy saving and emissions reduction, continuously raising energy usage efficiency, and (iv) encouraging employees to participate in energy saving and carbon reduction.

Proactively contribute and drive society towards higher proportion of photovoltaic generation

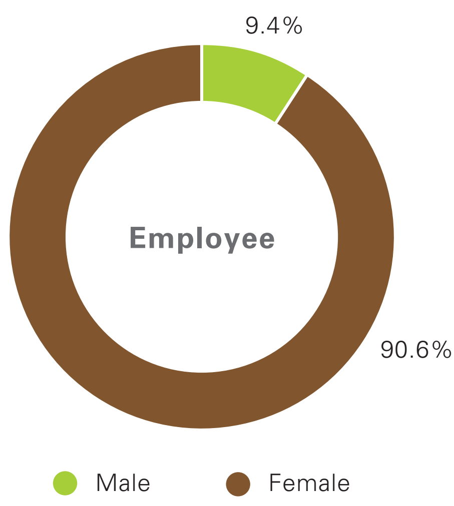
During the Year, the Group's subsidiary Shandong Tiantong Food Co., Ltd. partnered with a professional organisation to set up a photovoltaic system with a total planned floor area of 24,000 square metres on the vacant rooftop space of its plant, which is currently in good operating condition. Based on a CO_2 emission of 0.79 kg per unit of electricity produced, it is estimated that this solar power unit can save approximately 2,000,000 kg of CO_2 emissions. Through this project, the Group aims to demonstrate its concern for the issue of global warming, and hopes to appeal to society to optimise usage of earth's renewable energy through practical means.

Making Progress together with Employees

By gender and employee level



(Total number of management: 71)



(Total employees: 624)

Environmental, Social and Governance Report

Employees and Recruitment Practices

The hard work of our employees is the biggest driver to push the Group moving forward, so we spare no effort in aspects of employees' health and safety during their work, development and training, and other rights and interests and welfare. We have compiled internal reference documents such as the Employee Handbook, the Social Responsibility Management Handbook, and the Social Responsibility Procedure Document to enable employees to observe the regulations, protect their rights, and formulated guidelines for the recruitment and staffing of the Group, to ensure that all aspects are in line with the applicable laws and regulations.

Fair treatment and protection of rights

The first chapter of the Employee Handbook stipulates that the recruitment of the Group is based on the principle of openness, impartiality and equality to ensure that employees are hired in a voluntary manner and forced labour is prohibited. Employees enjoy personal freedom, freedom of speech, freedom of religion and freedom of association as provided by law, and are not discriminated based on personal religious beliefs, gender, age and ethnicity.

This Handbook also clearly sets out the employee recruitment and resignation procedure, working hour arrangement, welfare-related policies (including but not limited, labour protection measures, year-end incentive methods, routine leave systems, etc.), and staff responsibilities and interests, involving a variety of aspects of employment with comprehensive contents. The Group provides the necessary labour protection tools and equipments for workers during their working, including work clothes, gloves, earmuffs, sleevelets, finger stalls and helmet, etc., to ensure the safety of the staff. The Group will continue to update this Employee Handbook to ensure that the contents of the Handbook keep pace with the latest practices.

In order to ensure the effective implementation of the rules and regulations and enhance the efficiency of execution, we have standardised the various management procedures such as "working time management procedures", "remuneration management control procedures", "health and safety management procedures", "anti-discrimination management procedures", "management procedures on the freedom of association and collective negotiation rights" and "emergency medical relief management procedures", etc. in the Social Responsibility Procedure Document.

Protecting human rights and eradicating forced labour

In order to further strengthen the compliance of human resources management, the Group formulated the Anti-Trafficking Procedures, the Non-Compulsory Labour Administration Procedure and the Procedures on Saving Child Labour and Youth Worker Protection on the basis of the Labour Law and the Labour Contract Law, to prohibit trafficking of women, children and other persons in any way and by any means, and completely eradicate forced labour and child labour.

The procedures also require that identity verification and background investigation be carried out for all foreign employees before they are employed and a special group is designated to implement and monitor policy enforcement. In the event of non-compliance, we will pursue responsibility with the relevant employee in accordance with predetermined management procedures and safeguard the personal safety of the employee under duress. In the event that material violation of laws is involved, we will simultaneously report to regulatory authorities to eradicate the occurrence of similar issues.

Thanks to this, many outstanding talents have been working in the Group since its establishment. As of the end of 2017, the Group has 624 employees in total. Among them, 65 employees have been serving the Group for more than 10 years, accounting for 10.4%; approximately 100 employees have been serving the Group for more than 5 years, accounting for 16%, indicating the good business environment of the Group and employees' trust in the Group. The Group maintained a low employee turnover rate, and the overall turnover rate was approximately 4.2% in 2017. During the Year under Review, the Group did not find any child labour and forced labour.

The Group is proactively operating in an open and honest manner, providing equal development opportunities to our employees. We will continue to review and improve the staff system and their interests and continue to build the trust between company and employees.

Environmental, Social and Governance Report

Health and Safety

As employees are the Group's most valuable form of wealth, we have the responsibility to safeguard work safety for employees. We have consistently complied with the Production Safety Management Regulations, promoted the "Safety First" work principle which is implemented in every work step and detail, insisting on conducting safety education for each and every employee.

We require all employees to wear work protection equipment provided by the Group prior to working and passing safety checks before they operate equipment, in accordance with regulations. Any flammable, explosive, highly toxic, radioactive and corrosive materials in the workplace must be classified according to company policies and shall be submitted to specific staff for processing, supervision and treatment. Specialists are further required to attend professional training and assessment and only those qualified and certified staff are allowed in the operation and those unqualified staff are prohibited from participating in the relevant operation. Further, the Group requires that electrical appliances and circuits must undergo unified installation by the engineering department as well as regular maintenance to ensure their safety. Low voltage appliances must be adopted for handheld powered tools to ensure the personal safety of operators.


During the Year under Review, there was no work-related fatalities.

The Group will continue to improve our professional health and safety institution and system, and provide comprehensive protection measures for our employees, eliminating all potential risks to health and safety.

Environmental, Social and Governance Report

Development and Training

The Group cherishes every single employee. We believe that our employees will grow continuously with the Group's business expansion, and provide our employees with targeted, systematic and forward-looking training to tap into their potential and support the Group's sustainable development.

From the Group's senior management to grassroots employees, the Group has established targeted multilevel training methods and content, forming a set of systematic training mechanism, which includes department internal training, interdepartmental training, interdisciplinary knowledge sharing, etc. For employees with longer terms of service, the Group aids them in formulating career development plans and provides training in new skill; for new employees, the Group has established a complete induction training system to help them to adapt to the requirements of their positions as soon as possible. Through shared goals and values, the Group integrates our corporate culture and team spirit into the vision of every employee, effectively enhancing team cohesion.

In 2017, the Group's aggregate training time per employee was 97 hours. All employees took an aggregate of 15,395 man-hour of training. The Group organised a total of 162 training sessions, including 80 internal training sessions, 12 external exchange sessions, 20 external seminars and 50 external training sessions.

The Group is also concerned with the physical and mental well-being of our employees and has made improvements to the protection of welfare of employees. During the year, the Group's subsidiary Tiantong Food Co., Ltd. organised in batches health checks events for our employees, building a medical file for every employee and promptly providing feedback for our staff to have a comprehensive understanding of their own health conditions, as we demonstrate true care and concern for our employees. Meanwhile, the Group also distributed festive goods to all our female employees on International Women's Day, and enriched the leisure life of our employees by organising activities such as basketball matches between auxiliary and workshop employees.

With the continued expansion of the Group, in order to ensure constant improvement in the quality of our team, we will increase training opportunities for our employees and constantly review and improve training courses, ensuring that they support the needs of our business operations and our employees, as well as organise regular welfare events for our employees, as we strive to create a better working environment.

Environmental, Social and Governance Report

Stringent Control of Supply Chain

We consistently strive to improve product quality to enable the internationalisation of our products. Besides operating our own brands, the Group also provides reliable and comprehensive OEM services, attracting internationally renowned food industry clients with competitive edges such as consistent high quality, comprehensive industrial international accreditation, and rich product lines, and become one of the leading enterprises in China's fruit processing industry.

Selection of Qualified Suppliers

The Group believes that suppliers which can provide high quality raw materials and services will establish a good foundation for the Group's supply chain. In view of this, our newly prepared Food Safety Procedure Document has established the "Procurement Control Procedure", which sets out the responsibilities of various departments in the procurement process.

Establishing an independent panel

First, the purchasing department will form a panel together with the relevant personnel of the Production Department, the Quality Control Department and the Finance Department, and go in person to the place of operation of the potential suppliers to conduct site visit and inspection and evaluation through investigation and trial, and record it in the Supplier Evaluation Record Form in those categories as set out below. The Group will also provide our suppliers with a detailed list of our requirements to ensure that our suppliers fully understand the relevant requirements before supplying products.

Grade A, B	Qualified supplier
Grade C	Improvement required to be supplier
Grade D	Unqualified supplier

Ensuring consistent vision with suppliers

In addition, in order to monitor the operating standard of suppliers, the Group also formulated the Supplier Code of Conduct to specify the requirements of suppliers in terms of production environment, contractors and other related matters. Further, the Group wishes that our suppliers are consistent with our vision of sustainable development, and so relevant requirements are set out in the Supplier Code of Conduct. We require suppliers to value the human rights of employees, not employing any forced labour or child labour, while opposing any and all forms of discrimination and protecting the rights of employees.

In verifying data authenticity, we conduct regular inspections and require inspection of the supplier's complete daily operation procedures to verify that the supplier has complied with the Supplier Code of Conduct. In the event that a supplier deviates from the requirements of the Code, we shall have the right to terminate the relationship between the two parties, including cancellation of orders with outstanding payment. We make an assessment on the qualified suppliers at least once a year, including quality, delivery time and service, etc., and those which fail to pass the assessment are required to make improvements within six months, or their qualifications as eligible suppliers will be revoked.

We select supplies through our internal supplier selection system to ensure that each of the raw materials, package materials and service items have at least two suppliers for us to choose from, so that we can keep up with the pace of the market and select the most competitive suppliers to provide the highest quality products to ensure stable operation of the supply chain.

Environmental, Social and Governance Report

Abiding by Product Liability

The Group has been strictly abiding by the international standards of food safety and the quality of all our products has been affirmed by the regulatory authorities. In order to fully comply with international food processing quality and safety standards, the procurement department build basic files on our suppliers, which sets out species, scale, production volume, ripening period and fertiliser and pesticide usage for crops. We take crops which have been treated with pesticide and send them on a sampling basis for analysis by the government's inspection department to confirm if the crops are fit for processing and ensure the safety of the products.

The Group is dedicated to producing quality products for all our clients, and has adopted stringent quality monitoring measures in the entire production process. Strict quality control processes are in place for the procurement of all primary and secondary materials, production and packaging processes as well as for finished products, ensuring that the whole production process and product characteristics are monitored, in order to abide by product liability.

Sustained accreditation of good quality

By virtue of our effective system and management, the Group has continued to receive institutional accreditation from various certification agencies during the past year, including:

2017.02	Passed annual review for halal food certification (HALAL);
	Passed Walmart's annual social responsibility audit;
2017.03	Passed annual review for kosher food certification (KOSHER);
2017.05	Passed Business Social Compliance Initiative (BSCI) audit;
2017.07	Passed the annual plant inspection audit of the Workplace Conditions Assessment (WCA) conducted by British certification company Intertek, received the highest green level;
	Passed the annual supervision audit of the British Retail Consortium (BRC), achieved the excellent result of A+;
2017.08	The Company successfully passed the annual supervision audits of the Hazard Analysis and Critical Control Points (HACCP), the food safety management system (ISO22000);
2017.10	The annual supervision audit of the IFS passed receiving the IFS Food (High) certification.

Environmental, Social and Governance Report

The Group remains committed to the business principle of "Trust and Honesty", highly valuing the building of a corporate trust and honesty institution, strictly guarding product quality, striving to raise consumer satisfaction. In accordance with GB/T19580-2012 Excellent Performance Assessment Guidelines and the Administrative Measures Governing the Linyi Municipality Mayor's Quality Award, the Company has conducted reports in aspects including leadership, strategy, customers and market, resources, process management, survey analysis and improvement as well as business performance for the past three years, and after rounds such as materials assessment, live assessment and question and answer session conducted by an expert assessment panel, the Company passed the review for the 2017 Mayor's Quality award. Meanwhile, the Group's subsidiary Shandong Tiantong Foods Co., Ltd. successfully passed corporate credit assessment review during the year, and was granted the title of "Corporate Credit Rating AAA Company" by the China SME Association Credit Management Centre.

Administrative measures to ensure quality of manufactured products

To safeguard product quality on a long term basis, the Group has established the food safety panel, and appointed the head of the food safety team, the panel members of which are from procurement, production, quality inspection, technological research and development positions. The food safety panel is mainly responsible for:

(1) Ensuring that the required processes of the food safety management system are established, implemented, maintained and updated;

(2) Reporting to the Company's top management the regulatory conditions, performance and any required improvements in the food safety and quality regulation system;

(3) Ensuring heightened awareness within the whole Company for satisfying customer demands;

(4) Ensuring that the members of the food safety panel undergo relevant food safety training and education; and

(5) Contacting relevant parties on matters relating to the food safety management system.

The panel compiles the Food Safety Quality Manual, which undergoes review by the leader of the food safety panel and is issued upon approval by the general manager of the Group. If quality problems or potential risks are found, the panel will issue the corresponding Corrective Action and Precautionary Measure Processing to follow up and check its effectiveness. In terms of quality verification, the quality control department and the production department will carry out testing for different materials in accordance with the Raw Materials, Packaging Materials Procurement, and Acceptance Control Procedures. If defective products are found, the quality control department will carry out tracking and issue a Non-conforming Product Report based on the result of tracking. Deputy general manager and department heads of the Group will perform respective duties to make processing decisions on assessment and isolation, disposal or return of the unqualified goods.

Environmental, Social and Governance Report

The main processes for inspection of raw materials are as follows:

1. The quality control department will specifically provide for the focus of inspection based on raw data from the procurement department
2. Warehousing, quality control and procurement personnel will jointly inspect the raw materials upon receiving the materials and fill the Inspections Results Slip
3. Warehousing personnel will process stocking of materials according to the Inspection Results Slip
4. Non-conforming materials will be handled in accordance with the Non-conforming Product and Potential Non-conforming Product Control Procedure
5. Raw materials which pass inspection will be used in production. The production of each type of product has a detailed processing flowchart, and raw materials which have passed inspection must strictly follow the predetermined workflow in undergoing processing

We believe that good material quality monitoring will effectively guard against operational risks. At every stage in procurement, processing and packaging, we have written requirements on quality control standards to ensure that all processes are conducted under controlled conditions, reducing the chances of faulty products, implying lowered potential risks.

Full responsibility for manufactured products

Since January 2015, we have adopted a new distribution right system for our own brand "Bingo Times", to assess and select distributors through the centralised management to ensure provision of safe and healthy products for consumers. We entered into distribution agreements with all distributors, requiring that they shall not sell expired products and that the products that will expire within three months must be replaced by new products. We have the rights to purchase any expired products at retail prices from the stores for proper disposal and reimburse the costs from the distributors.

If the products are required to be recalled due to safety problems, the Group will verify all affected products within 4 hours, or trace all affected products within 2 hours in accordance with the provisions of the Product Recall Control Procedures. Afterwards, the leader of the food safety team will immediately convene a meeting for recall review. Once recall is confirmed, the trade department will be responsible for executing the procedure and supervising the process of product recalling. In addition, the Group conducts mock recall at least twice a year and updates the procedures in a timely manner to ensure the suitability, sufficiency and validity of the recall procedures.

In 2017, we did not recall any products due to health or safety reasons.

Being Honest with Customers

The Group not only treats internal product quality testing and monitoring with high regard, but also cherishes the views of consumers as external monitoring measures. The Group has formulated the Customer Complaint Control Procedures to properly handle customer complaints and classify and record each complaint in accordance with a number of internal guidelines, such as the Product Quality Information Feedback Processing, Health and Safety Complaint Archives and Complaint Nature Grading Standard.

The department responsible for receiving complaints will first verify the authenticity according to the contents of the complaint and return the results of the complaint investigation and handling of feedback to the complainant within 48 hours. If the same customer complains twice or more or the same type of complaint occurs twice or more, the trade department must report the complaint result to the HACCP team, which will review the relevant production process to find the cause of complaint.

During the year, we received a total of 2 complaints about products and services, relating to damaged product packaging. The complaints have been fully resolved after communication with the Group.

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Strict internal process and safeguarding customer privacy

Our commitment to customers is also reflected in the protection of their privacy. We abide by client and customer privacy regulations and have established a customer information confidentiality system. To improve security, we do not retain customer information in writing with the exception of necessary customer profiles. Under special circumstance, employees must be authorised by department heads before any printing, which must then be printed with a "classified" stamp and usage term, and signed upon delivery to the recipient. Personnel receiving authorisation are prohibited from transferring to others or taking outside the administrative zone any classified documents.

For electronic information, we instruct department managers to ensure the security of electronic information and they may authorise others to view the information, provided that such authorisation does not permit any downloading, editing or printing. The computer system of the E-commerce Department does not allow anyone to log in to the system without authorisation. Respective departments will conduct a monthly assessment of the customer information confidentiality mechanism, making prompt rectification if there are any potential risks. HR Department will also check respective departments from time to time to ensure effective implementation of the policy. If any violation is found, the Group will dismiss the employee who misplaces or sells the customer information, claim financial compensation against such employee, or even report such employee to the public security department for handling.

Protecting Intellectual Property Rights

We have developed and are developing trademarks, technical knowledge, product recipes, processes, technologies and other intellectual property rights that are of substantial value to us. Therefore, we spare no effort in protecting intellectual property rights. Upon the successful development of a new product or new technology, the Group will promptly make a patent application to the relevant authorities to protect our legitimate rights and interests from being infringed upon by being sneaked to registration. In addition, we sign confidentiality agreements with our employees, which specify the scope and measures of confidentiality and liability for breach of contract to prevent leakage of confidential information arising from personnel movement.

The Group's sales personnels are responsible for monitoring their respective sales regions; if any counterfeit products and infringements are found, they are required to immediately report to the Group's legal counsel to seek legal protection. In special circumstances, the Group will set up a counterfeiting group or a counterfeiting office to defend the Group's brands.

Preventing Corruption

We believe that operational transparency will create a fair, harmonious and positive working environment, improve the efficiency of the Group, and contribute far-reaching significance to the long-term development of the Group. Accordingly, the Group has formulated the Procedures for Prevention of Commercial Bribery and Corruption Control to ensure that our staff shall not accept any form of bribery, nor offer bribes to other in order to seek any personal interest.

In terms of anti-corruption advocacy, the HR Department of the Group publicises the laws and regulations relating to bribery and corruption through the Company's columns, e-mail, etc. to keep our employees educated. At the same time, the Group has also set up reporting channels such as anonymous comments collection boxes and reporting telephone numbers.

Environmental, Social and Governance Report

If any corruption is found, the Finance Department will be responsible for auditing the bribery and maintaining communication with the public. For any verified corruption or bribery, the Group will immediately report to the local public security department. During the Year under Review, the Group did not suffer from any corruption lawsuit.

Giving Back to Society

The Group has long been dedicated towards community welfare and implementing national precision poverty assistance policies. During the year, we organised a number of social services, caring, poverty assistance and aid activities, including:

- "A dollar from the heart" massive care for the elderly and poor event;
- Regular visits to households in difficulty and children in welfare homes;
- Providing assistance and welfare to needy children; and
- Participation in the "Little Orange Lamp" caring activity, etc.

As the Group lent its strong support to poverty assistance and charity activities, we were honoured with titles ranging from "Caring unit" to "Little Orange Lamp Caring Enterprise" by government departments.

Taking our visit to Shandong Linyi Children Welfare Home for example, the Group's subsidiary Tiantong Food Co., Ltd. delivered to over 300 children nutritious and healthy canned apricots and strawberries and fruit jelly cups, sending our care and concern to the grassroots. We hope that, through our time with the children, can enable them to experience society's care for them and help them keep faith in the future. At the same time, we also hope that through the Group's influence, we will attract more people to join in charity affairs, focusing social resources on vulnerable groups.

We believe that initiating community welfare activities not only demonstrates our corporate culture and vision, but also inspire our employees and raise cohesiveness within the Group.

Future Prospects

Looking ahead, the Group will uphold our vision in building a resource saving and environmentally friendly enterprise, enhancing sustainable corporate competitive edge, taking the provision of healthy quality products to consumers as our mission, continuously strengthen environmental policies, properly handling the relationship between environmental protection and corporate development, adopting as far as possible more eco-friendly modes of production, such as gradually switching to energy saving and high efficiency production equipment and raising energy efficiency. In addition, the Group will refer to green building standards in designing and constructing the No. 5 and No. 6 plants, injecting more eco-friendly elements and integrating energy savings and functionality to reduce energy consumption as much as possible. The new built integrated development centre features the highest standards of thermal and acoustic insulation to reduce the use of heaters and air conditioners, thereby reducing energy consumption and providing a more comfortable office environment for employees. We will continue to expand our investment in environmental protection facilities and adhere to the principle of producing safe and quality products to provide the public with reliable processed fruit products and ensure sustainable business development. At the same time, we will continue to take on corporate social responsibility, driving the development of community welfare activities.

In future, the Group will continue to adopt an open, win-win, innovative, trustworthy and honest attitude in ensuring corporate sustainable development, contributing to the creation of green environmentally friendly mode of production, and playing an active role in the building of a harmonious society.

Environmental, Social and Governance Report

Table of Summarised Data

A. Environment

Aspect A1: Emissions		Information on the policies; and relevant laws and regulations that have a significant impact relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Please refer to details set out on pages 9-10 in this report.
	KPI A1.1	The types of emissions and respective emission data.	Electrical energy and natural gas are the main energy sources used in the Group's production processes.
	KPI A1.2	Greenhouse gas emissions in total and intensity.	Total emissions: 10,327.72 tonnes of carbon dioxide equivalent (**CO_2e**) Intensity: 0.12 tonnes of CO_2e/tonne of designed capacity
	KPI A1.3	Total hazardous waste produced and intensity.	Total hazardous waste produced: 469 kg Intensity: 0.006 kg/tonne of production capacity
	KPI A1.4	Total non-hazardous waste produced and intensity.	Total non-hazardous waste produced: 338,500 kg* Intensity: 4.03 kg/tonne of designed capacity * During the Year under Review, non-hazardous waste produced mainly consisted of waste cans and waste paper. However, as there is no accurate records of the volume of waste paper produced, only the volume of waste cans is disclosed
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	Please refer to details set out on pages 10 in this report.
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	During the year, the Group recovered a total of 358,200 kg of waste paper, as well as 169,300 kg of waste cans, representing 34.4% and 16.08% of total non-hazardous waste respectively. Please refer to details set out on pages 9 in this report.

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Aspect A2: Use of Resources	Policies on the efficient use of resources, including energy, water and other raw materials.		Please refer to details set out on pages 9-10 in this report.
	KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	Direct energy usage: Natural gas usage: 2,083,900 cubic Gasoline usage: 33,000 ℓ Indirect energy usage: Electricity usage: 5,697.25 kWh
	KPI A2.2	Water consumption in total and intensity.	Total water consumption: 975,800 m^3 Intensity: 11.62 m^3/tonne of designed capacity
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Please refer to details set out on pages 10 in this report.
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Please refer to details set out on pages 9 in this report.
	KPI A2.5	Total packaging material used for finished products and with reference to per unit produced.	Total paper packing material: 713,857 kg (including boxes, trademarks and cartons)
Aspect A3: The Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.		Please refer to details set out on pages 9 in this report.
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Please refer to details set out on pages 9 in this report.

Environmental, Social and Governance Report

B. Social

Employment and Labour Practices

Aspect B1: Employment	Information on the policies and relevant laws and regulations that have a significant impact relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		Please refer to details set out on pages 11 in this report.
	KPI B1.1	Total workforce by gender and employees level.	Total employees: 624 Please refer to details set out on pages 10 in this report.
	KPI B1.2	Employee turnover rate.	Overall turnover: approximately 4.2%
Aspect B2: Health and Safety	Information on the policies and laws and regulations that have a significant impact relating to providing a safe working environment and protecting employees from occupational hazards.		Please refer to details set out on pages 12 in this report.
	KPI B2.1	Number and rate of work-related fatalities.	0
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Please refer to details set out on pages 12 in this report.
Aspect B3: Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Please refer to details set out on pages 13 in this report.
	KPI B3.2	The average training hours completed per employee.	Aggregate training time per employee: 97 hours

Environmental, Social and Governance Report

Aspect B4: Labour Standards	Information on the policies and relevant laws and regulations that have a significant impact relating to preventing child and forced labour.		Please refer to details set out on pages 11 in this report.
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Please refer to details set out on pages 11 in this report.
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Please refer to details set out on pages 11 in this report.
Operating Practices			
Aspect B5: Supply Chain Management	Policies on managing environmental and social risks of the supply chain.		Please refer to details set out on pages 14 in this report.
	KPI B5.2	Description of practices relating to engaging suppliers, how they are implemented and monitored.	Please refer to details set out on pages 14 in this report.
Aspect B6: Product Responsibility	Information on the policies and relevant laws and regulations that have a significant impact relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Please refer to details set out on pages 15-18 in this report.
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	0%
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Complaints relating to products and services: 2 cases Please refer to details set out on pages 17 in this report.
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Please refer to details set out on pages 18 in this report.
	KPI B6.4	Description of quality assurance process and recall procedures.	Please refer to details set out on pages 17 in this report.
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Please refer to details set out on pages 18 in this report.

Environmental, Social and Governance Report

Aspect B7: Anti-corruption	Information on the policies and relevant laws and regulations that have a significant impact relating to bribery, extortion, fraud and money laundering.		Please refer to details set out on pages 18 in this report.
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	0 cases
	KPI B7.2	Description of preventive measures and reporting procedures, how they are implemented and monitored.	Please refer to details set out on pages 18 in this report.
Community			
Aspect B8: Community investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Please refer to details set out on pages 19 in this report.
	KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Please refer to details set out on pages 19 in this report.

Management Discussion and Analysis

Business Review

The year 2017 witnessed the following major developments in the global economy: (i) the world's major economics achieved positive economic growth; (ii) developed economies in stable recovery; (iii) global inflation rose moderately, raising hopes of ending the long period of stagnation; (iv) trade and investment conditions show clear improvement, but international financial markets remain turbulent and economic fluctuations have risen significantly; (v) the global industrial competition experiences dramatic changes. Under the new normal of the China's economy, the spill-over effect of China's economic development has further intensified, meanwhile quality and efficiency have improved simultaneously. As the national economic structure undergoes complete optimisation, new economic growth momentum has been gathering continuously, while enhanced consumption upgrade has had a comprehensive stimulating effect on economic development, and the rapid growth of the e-commerce industry has also provided an expansive market prospect for the consumer goods industry.

During the Year under Review, the Group achieved encouraging progress. Our strategy of parallel development of our own brand and OEM business continued to bring robust performance growth for the Group. The Group's revenue experienced double digit growth in percentage points year-on-year, recording revenue and gross profits growth of 14.1% and 2.5% to RMB745.5 million and RMB204.3 million respectively, of which revenue from our own brand business soared by 71.4% to RMB322.1 million. Net profit for the year was RMB123.6 million. Earnings per share (expressed in HK$ using the respective year end RMB versus HKD exchange rates) increased by 4.1% from HK$0.145 (equivalent to RMB0.129) in 2016 to HK$0.151 (equivalent to RMB0.126) in 2017. Adjusted net profit increased by 9.5% to RMB126.4 million in 2017 and adjusted net profit margin stated at 17.0%.

The Group's customers comprise, (i) for own brand products, distributors and retailers, and (ii) for OEM business, overseas brand owners, import and export companies located in the PRC and overseas. Most of the major customers have 5 - 15 years of business relationship with the Group as at 31 December 2017.

Own Brand Product Sales Strategy

During the Year under Review, the Group's own brand business continued to be the performance growth engine. Revenue from our own brand business including "繽果時代 (Bingo Times)", "天同時代 (Tiantong Times)", and "果小懶" experienced a year-on-year growth of 71.4% to RMB322.1 million, representing 43.2% of the Group's total revenue.

In order to actively promote our own brands, the Group actively participated in numerous types of exhibitions and fairs during the Year under Review, opened up sales channels with potential and continuously expanded our sales network, so as to raise our brand profile. Exhibitions which we participated in include FOODEX JAPAN 2018, the 96th China Food & Drinks Fair, the PLMA's 2017 "World of Private Label" International Trade Show, Anuga International Food and Beverage Exposition in Cologne, Germany, the Autumn 2017 China Food & Drinks Fair, and the PLMA's 2017 U.S. Private Label Trade Show held in Chicago. Through participating in food exhibitions of various types and scales, the Group interacted with domestic and international food producers, distributors, retailers and clients, keeping updated with rapidly evolving consumer market, promoting the Group's brands and strengths. Participating in exhibitions also allows the Group to expand to a deeper and wider domestic distribution network, in order to complement to the Group's future vibrant development.

With the increasing popularity of e-commerce, the Group has continued to invest resources in developing e-commerce platforms such as WeChat Business and Tmall during the Year under Review, and expanding online sales channels. We also raised the image of our own brands through using active internet marketing approaches. We launched timely promotional discounts to match with promotional activities such as the Chinese Singles' Day event on the e-commerce platforms, and achieved excellent online sales records. During the Year under Review, revenue from online sales surged to RMB65.6 million (2016: RMB19.5 million), representing approximately 8.8% and 20.4% respectively of the Group's total revenue and own brand revenue respectively.

Management Discussion and Analysis

In respect of offline sales network, the Group has continued to expand rapidly geographical coverage of our own brand products, such that the sales network of our own brand products covers 21 provinces, direct-controlled municipalities and autonomous regions in China, achieving a scale of layout in the domestic offline market. Our own brands have continued to adopt the new distribution system, implement a sales incentive scheme for distributors, further strengthen interaction and cooperation with the distributors, and build a group of test markets. We have successfully expanded the number of distributors to approximately 184. Meanwhile, the Group has also expanded its chain superstore channels during the Year under Review, and successfully entered into the chain supermarkets such as RT-Mart, CR Vanguard and Jinan Hualian, thus increasing the popularity of our own brands.

OEM Sales Strategy

In light of 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 if 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 with consistent quality, comprehensive international industrial certifications and rich product lines. During the Year under Review, due to the need to devote more resources and provide greater flexibility in the supply chain for developing our own brand business, the Group has adopted strategic and limited arrangements in conducting OEM production work. The OEM business continued to experience stable development and seamless cooperation with renowned international brands, recording revenue of RMB345.2 million during the year, representing 46.3% of the Group's total revenue, while the number of active OEM clients placing orders for the Group's products have remained at 44 (2016: 44).

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 Year under Review, the revenue from trading of fresh fruit and others was approximately RMB78.2 million, representing 10.5% of the Group's total revenue.

Expansion of Production Facilities

The Group continues to improve production facilities to enhance its production efficiency and quality. Upgrading of production workshops No. 1 to No. 4 have been completed and are currently operational, and total annual designed production capacity has reached 84,000 tons. The Group is also actively preparing for production workshops No. 5 and No. 6. Notwithstanding the Group's sizeable expansion in production capacity, we have 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》).

During the Year under Review, the Group entered into a sale and purchase agreement to acquire Strong Won Investment Limited (力勝投資有限公司) and its wholly owned subsidiary Tiantong Foods (Yichang) Ltd. (天同食品(宜昌)有限公司) ("Yichang Tiantong"). Yichang Tiantong is principally engaged in the production of subtropical processed fruit products, targeting a total of 80,000 tonnes production of processed fruit for the Group in the next 3 years. Yichang Tiantong is located in Dangyang City of Hubei Province and owns land use rights of 101 mu and production facility with gross floor area of 26,000 square metres, among which is a production workshop with 12 production lines, an office building, a warehouse, and environmental protection and staff facilities. Yichang Tiantong also holds the required licences in China and various international accreditations relating to its production facilities, quality control and management system. This acquisition will allow the Group to establish a strategic production and distribution base in Central China to expand its business, and develop and promote subtropical fruit products. The acquisition was completed on 31 January 2018.

Management Discussion and Analysis

Research and Development and Promotion

In order to capture the evolving trends in the snack foods industry, the Group has consistently invested significant resources on the research and development of new products and food processing technology enhancement. During the Year under Review, the Group has introduced a diverse range of new products with different flavours, including but not limited to fruit jellies, "冰糖燉梨 (Stewed pears soup with crystal sugar)" under "繽果時代 (Bingo Times)" brand and "一罐一碼紅包獎賞 (One-can-one-code Bonus Reward)" series of processed fruit products, so as to satisfy market demands.

During the Year under Review, the Group entered into an industry-university research collaboration agreement with a renowned university in China. Both parties will commence full cooperation in the areas such as scientific research, innovative development, education and teaching, and talents training, as well as establish an industry-university research base that includes sharing of research results and big data. Meanwhile, the Group has reached a strategic partnership with a renowned food research institute in Japan to jointly develop new products, in order to rapidly seize the snack food market in Asia.

During the Year under Review, the Group has been and are continuing to research and develop new processed fruit products, including a trans fat free fruit snack which is very similar to ice cream, and natural fruit pudding with different flavours. The Group will continue to introduce new types of snack products under its own brand, in order to satisfy and suit the tastes and demands of younger consumers.

Diversified Financing Channels

The Group has consistently strived to explore suitable strategic merger and acquisition opportunities. In order to strengthen financial liquidity for future development plans and satisfy working capital requirements for expansion of our business, on 16 November 2017 and 22 January 2018 respectively, the Group entered into subscription agreement for the issue of convertible bonds in the principal sums of US$9,000,000 and US$4,000,000 respectively to Guotai Junan Finance (Hong Kong) Limited ("Guotai Junan") at an initial conversion price of HK$1.58 (the conversion price represents premiums of approximately 12.9% (i.e. HK$1.4) and 26.4% (i.e. HK$1.25) respectively on closing prices quoted on the Stock Exchange on the subscription dates). The net price for the issue agreed on 16 November 2017 and 22 January 2018 was HK$1.54 and HK$1.53 respectively. The issue of the convertible bonds was completed on 27 November 2017 and 29 January 2018 respectively. The funds raised were intended to be used as the Group's working capital, in order to expand and develop the own brand business and international business, including new products and product categories, industrial partnerships and strategic investments. Up to the date of this report, approximately HK$49.5 million out of the proceeds of the issue of the convertible bonds have been utilized as our brand business development and working capital, which was consistent with the original intended use. Approximately HK$50.5 million out of the proceeds remained unutilized.

With respect to the convertible bond in the principal sum of US$9,000,000, a maximum of 44,145,569 Shares will be allotted and issued upon full conversion of the convertible bond, representing approximately 4.52% of the existing issued share capital of the Company and approximately 4.32% of the issued share capital of the Company as enlarged by the allotment and issue of new Shares. If fully converted, the shareholding of (i) Wealthy Active Limited (a company wholly-owned by Mr. Yang Ziyuan) will be diluted from approximately 46.20% to approximately 44.21% and (ii) Wealthy Maker Limited (a company wholly-owned by Mr. Sun Xingyu) will be diluted from approximately 11.25% to approximately 10.77%.

With respect to the convertible bond in the principal sum of US$4,000,000, a maximum of 19,620,253 Shares will be allotted and issued upon full conversion of the convertible bond, representing approximately 2.01% of the existing issued share capital of the Company and approximately 1.97% of the issued share capital of the Company as enlarged by the allotment and issue of new Shares. If both convertible bonds in the principal sums of US$9,000,000 and US$4,000,000 are fully converted, the shareholding of (i) Wealthy Active Limited will be diluted from approximately 46.20% to approximately 43.37% and (ii) Wealthy Maker Limited will be diluted from approximately 11.25% to approximately 10.56%.

Management Discussion and Analysis

Based on the cash position of the Group, it is anticipated that, if none of the convertible bonds is converted, the Group will be able to meet its redemption obligations under both convertible bonds.

Principal Risks and Uncertainties

In 2017, the Company identified and determined the significant risks of the Company through the risk management process. With the changes of business scale, business scope and the external environment as well, management considered the three significant risks disclosed in 2016 still existing and the levels of all the risks are decreasing except the Merger and Acquisition Risk stays similar to last year. For the effects of each category of risks on the Group, the Group has given a detailed description, and prepared corresponding alleviating/avoiding measures to manage such risks. Details are as follows:

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. Any incidents in connection with product quality and food safety may adversely affect the confidence of the public towards the products of the Group, which in turn affect the business and results of operation of the Group.

Merger and Acquisition Risk

In order to satisfy the increasing order demands, 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. Failure to acquire suitable targets may result in the Group not able to create synergies with these targets, which may in turn affect our operation and loss of expected profits.

Brand Publicity Risk

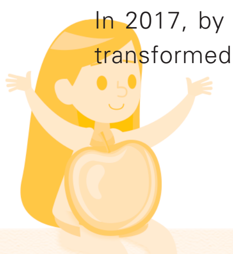
The Group will continue its strategy to develop the OEM and own brand business in parallel. Brand publicity risk refers to the risk of brand reputation's (including the extent or coverage of brand influence) failure of meeting expectations due to lack of brand promotion strategy or supporting resources. Failure in building up the positive image of our brand to the public may hinder our future growth and competitiveness, which may in turn affect the results of operation of the Group.

The risk management measures in respect of the above risks and uncertainties are set out in the paragraph headed "Business Review" under the section headed "Report of the Directors" of this annual report.

Prospects

In recent years, with the improvement of China's economic development and consumption levels of the population, snack foods have become an important component in the daily food consumption of the population, which form a massive business opportunity. The growth in China's economic development level and changing notions of consumption among the population is accompanied by the consumption upgrades and the changes in consumers' attitude, which drives the snack food industry to develop towards directions in appealing to the younger demographic group, in becoming high-end, and in emphasising healthiness. With the trend of rapid development in the e-commerce industry, the increasing support in respect of capital and policy-making, robust development in information technology and logistic infrastructure and deep integration between the food industry and e-commerce, the prospect of production in China's snack food industry is expected to increase continuously.

In 2017, by virtue of further breakthroughs in the sales of our own brand products, the Group has successfully transformed into one of the active players in upgraded consumer goods industry in China.



Management Discussion and Analysis

Facing various market opportunities in the future, the Group will consolidate resources in all areas, implement streamlined management and a de-seasonalised production strategy, in order to raise corporate core competitiveness. We will accelerate the development of branding, new products, sales channels and production capacity to create sustainable development and better results.

For branding, the Group will work on brand planning to create a fresh brand image and reinvent brand value, as well as cooperate with regional distributors to promote comprehensive marketing activities, raise brand recognition and reputation of its own brand, and further strengthen the Group's position as the market leader. For products and product categories, the Group will through conducting internal research and development or forming strategic partnerships with third-party research institutes, develop and launch product series with more new flavours and diversity, in order to satisfy market demands. Further, the Group will accelerate expansion of its product line through introducing new product categories such as functional foods.

In respect of sales channels, the Group will strengthen its strategic positioning in the online and offline parallel development mode, with WeChat Business and Tmall continuing to serve as the Group's main online e-commerce platforms. The Group will accelerate the building of offline sales network in the PRC, Hong Kong and Macau, as well as actively participate in large domestic food-related fairs and expositions to strengthen and reinforce offline positions. While the Group is vigorously developing the domestic business, we have been continuously seeking opportunities to enter into the overseas markets. During the Year under Review, the Group signed a memorandum of understanding for an intended acquisition of Homemade Harvey Operating, LLC ("Homemade Harvey"), a renowned United States regional quality organic food business. If the acquisition eventually materialises, it would accelerate the introduction of the Group's innovative processed foods to the United States market and Homemade Harvey's foods to China market, thus stimulating the growth of the Group's own brand business both domestically and internationally.

In January 2018, the Group entered into a strategic cooperation and purchase agreements with Tai Wei Beverage Joint Stock Company Limited and Tai Wei (Guangzhou) Co. Ltd ("Taiwei Group"). Both parties agreed to be strategic partners for the next decade, and jointly produce and sell the X-Bear series of energy drinks (熊霸激能系列飲料) ("X-Bear") in China. During the first year of cooperation, Taiwei Group will place a production order of not less than RMB162 million of X-Bear products to the Group, and conduct sales through Taiwei's own sales channels, including retailers, hotels and food and beverage businesses. Meanwhile, the Group is also authorised to sell X-Bear products through its existing online and offline distribution channels in over 20 Provinces in China. As the pilot scheme for the Group to introduce functional products, the Group can provide consumers with more diversified and safe quality products through expanding and extending its product lines. The Group could also sell its existing and newly developed processed fruit products to the Taiwan market through Taiwei in the future, thus stimulating business growth and contributing to the Group's result in 2018 and beyond.

With regard to production capacity, the Group will explore the de-seasonalised modes of production, and sustain its dedication in improving and upgrading existing production facilities to raise productivity and capacity so as to match the speed of business development. Through consolidating the production capacity in the Hubei production base, the group aims to accelerate the development and expansion of its operation. Meanwhile, the Group intends to seek acquisition targets in Guangxi and Yunnan Provinces which have the focus on processing tropical fruit, in which the Group hopes its products to eventually cover the fruits in three climate zones including tropical, subtropical and temperate climate zone, thus expanding our product line and widening our source of revenue, and becoming a leading processed food corporation that can process all varieties of fruit.

As a renowned food processor in China, the Group has consistently complied with the strictest standards on every aspect of food safety. Driven by the efforts of our entire staff and with the healthy development of the industry, the Group will continue its stable and robust growth, and serve to the consumer at large with healthy, safe, tasty, and convenient processed foods.

Management Discussion and Analysis

Save as disclosed in this report, there is no significant event affecting the Group which have occurred since 31 December 2017.

Financial Review

Revenue

During the year ended 31 December 2017, our revenue increased to approximately RMB745.5 million from approximately RMB653.5 million for the year ended 31 December 2016, representing an increase of approximately RMB92.0 million or 14.1%. The Group continued to sell its processed fruit products under its own brand and on an OEM basis, and engaged in trading of fresh fruits. The increase in revenue was mainly attributable to the substantial increase in the sales of our own brand products from approximately RMB187.9 million for the year ended 31 December 2016 to approximately RMB322.1 million for the year ended 31 December 2017, representing a growth of 74.1%; which was partly offset by a moderate decrease in the OEM sales from approximately RMB382.4 million for the year ended 31 December 2016 to approximately RMB345.2 million for the year ended 31 December 2017, representing a decrease of 9.7%.

Breakdown of the revenue by business segments for the year ended 31 December 2017 and the comparative figures in 2016 are set out as follows:

	For the year ended 31 December		Changes	
	2017	2016		
	RMB million	RMB million	RMB million	%
Revenue				
OEM Sales	**345.2**	382.4	(37.2)	(9.7)
Own Brand Sales	**322.1**	187.9	134.2	71.4
Fresh Fruits Sales and others	**78.2**	83.2	(5.0)	(6.0)
Total	**745.5**	653.5	92.0	14.1

During the Year under Review, processed fruit products sold under our own brand accounted for 43.2% (2016: 28.8%) of the total revenue. Revenue from our own brand products has become a key segment and its level in 2017 was almost equivalent to the revenue from the OEM products. The substantial increase was contributed by (i) the continuous increase in the number of new distributors, (ii) the growth of sales from most of the existing distributors, and (iii) the rapid expansion of the online sales channels. The number of our distributors increased from 126 as at the date of last annual report to 184 as at the date of this report. The revenue through online channels also grew substantially in 2017 and represented 20.4% of the revenue from our own brand products (2016: 10.4%).

Revenue from processed fruit products sold on an OEM basis stayed at a steady level of RMB345.2 million (2016: RMB382.4 million), and continued to contribute a significant portion of the total revenue of the Group and represented 46.3% (2016: 58.5%) of the total revenue during the year ended 31 December 2017. Our processed fruit products are sold to international well-known brand owners either by our Group directly to overseas brand owners and trading entities, or through third party trading entities in the PRC. The revenue decreased moderately in 2017 as we have devoted more resources and provided greater flexibility in the supply chain for developing the own brand business. The number of active customers that ordered our products in 2017 remained at 44 (2016: 44).

We also sold fresh fruit products and the revenue contributed by fresh fruit sales and others represented 10.5% of the total revenue for the year ended 31 December 2017 (2016: 12.7%). Revenue from fresh fruit sales for the year ended 31 December 2017 was broadly in line with last year. The decrease in revenue from fresh fruit and others in 2017 was mainly attributed from the adjustments on other revenue with regard to the free trial products.

Management Discussion and Analysis

Gross profit and gross profit margin

	For the year ended 31 December			
	2017	**2016**	**Changes**	
	RMB million	**RMB million**	**RMB million**	**%**
Gross profit				
OEM Sales	**103.4**	123.6	(20.2)	(16.3)
Own Brand Sales	**92.1**	57.6	34.5	59.9
Fresh Fruits Sales and others	**8.8**	18.2	(9.4)	(51.7)
Total gross profit	**204.3**	199.4	4.9	2.5
Adjustment:				
Release of provision for social insurance contributions	**(1.0)**	(6.5)		
Adjusted gross profit	**203.3**	192.9	10.4	5.4

Gross profit for the year ended 31 December 2017 increased to approximately RMB204.3 million from approximately RMB199.4 million for the year ended 31 December 2016, representing a year-on-year increase of RMB4.9 million, or 2.5%. If the one-off adjustment with regard to the release of provision for social insurance contributions is excluded, the adjusted gross profit for the year increased by 5.4% or approximately RMB10.4 million to RMB203.3 million. The increase was mainly driven by increase in revenue which was partly offset by the overall decrease in gross profit margin.

	For the year ended 31 December	
	2017	**2016**
Gross profit margin		
OEM Sales	**30.0%**	32.3%
Own Brand Sales	**28.6%**	30.7%
Fresh Fruits Sales and others	**11.3%**	21.9%
Overall gross profit margin	**27.4%**	30.5%

Gross profit margin for the year decreased from 30.5% to 27.4%. The overall decrease in gross margin was mainly attributable to the substantial rise in the price level in China during the year on some of the key components of cost of sales, including sugar, food supplements and packaging materials. With regard to the gross margin of the own brand sales sold through the online channels, although the revenue from online sales increased substantially and the Group was able to capture a larger market share, the gross margin of online sales was lower due to the intense competitive environment from the online market in China.

With regard to gross margin on fresh fruit sales and others, if several miscellaneous adjustments are excluded, the gross margin on fresh fruit remained stable at 23.6% in 2017 (2016: 23.2%).

Management Discussion and Analysis

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 year ended 31 December 2017, the selling and distribution expenses amounted to approximately RMB17.0 million, representing a year-on-year increase of approximately RMB3.8 million, or 29.0%. The increase was mainly due to the one-off brand building expenses in connection with offering free trial products which amounted to approximately RMB4.5 million (2016: RMB2.3 million). Without taking into account the one-off brand building expenses, the selling and distribution expenses increased by 12.8% to approximately RMB12.5 million and the increment is less than the growth of revenue during the Year under Review.

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 RMB17.9 million for the year ended 31 December 2016 to RMB28.5 million for the year ended 31 December 2017. During the Year under Review, an exchange loss of RMB2.4 million was reported in the general and administrative expenses while an exchange gain of RMB9.2 million was reported during the year ended 31 December 2016. The exchange loss in 2017 mainly arose from bank balances account, receivables, and convertible bonds denominated in HKD and USD, and the depreciation trend of HKD and USD against RMB during 2017. Without taking into account the exchange difference, general and administrative expenses slightly decreased from RMB27.1 million for the year ended 31 December 2016 to RMB26.1 million for the Year under Review, representing a 3.7% year-on-year decrease.

Income tax expenses

Income tax expenses represent the PRC enterprise income tax of our PRC subsidiaries. For the year ended 31 December 2017, our income tax expenses decreased by RMB0.3 million, or approximately 0.8%, to RMB37.3 million from RMB37.6 million for the year ended 31 December 2016. The decrease in the income tax expenses was primarily due to the increase in income not subject to tax which offsets more than the increase in our assessable income during the year.

Net profit and net profit margin

	For the year ended 31 December			
	2017	**2016**	**Changes**	
	RMB million	**RMB million**	**RMB million**	**%**
Net profit for the year				
Adjustments:	**123.6**	128.8	(5.2)	(4.0)
Release of provision for social insurance contributions	**(1.0)**	(6.5)		
Foreign exchange differences	**2.4**	(9.2)		
Brand building expenses	**4.5**	2.3		
Fair value difference on convertible bond and investment properties	**(4.6)**	–		
Transaction costs for issuance of convertible bond	**1.5**	–		
Adjusted net profit for the year	**126.4**	115.4	11.0	9.5
Net profit margin	**16.6%**	19.7%	N/A	N/A
Adjusted net profit margin	**17.0%**	17.7%	N/A	N/A

Management Discussion and Analysis

For the year ended 31 December 2017, net profit slightly decreased by approximately RMB5.2 million or 4% to approximately RMB123.6 million as compared to approximately RMB128.8 million for the year ended 31 December 2016. Notwithstanding the Group's effective control on the recurring selling and distribution expenses, and the general and administrative expenses, the net profit during the Year under Review dropped due to several non-recurring or one-off expenses. If the release of provision for social insurance contributions, foreign exchange differences, new brand building expenses, fair value difference on convertible bond and investment properties, and transaction costs for issuance of convertible bond are excluded, the adjusted net profit for the Year under Review increased by RMB11.0 million or 9.5% to approximately RMB126.4 million.

The net profit margin and adjusted net profit margin for the Year under Review were 16.6% (2016: 19.7%) and 17.0% (2016: 17.7%) respectively.

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 31 December 2017	**As at 31 December 2016**
Gearing ratio (%)	**21.6%**	17.2%
Current ratio	**2.67**	3.23
Cash and cash equivalent (RMB million)	**309.2**	224.0
Net current assets (RMB million)	**308.4**	258.4
Quick ratio	**2.26**	2.67

The gearing ratio of the Group as at 31 December 2017 was 21.6% (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, convertible bonds, 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 31 December 2017 was 2.67 (31 December 2016: 3.23).

As at 31 December 2017, our cash and cash equivalents amounted to approximately RMB309.2 million (31 December 2016: RMB224.0 million). Our net current assets was approximately RMB308.4 million as at 31 December 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 31 December 2017 was 2.26 (31 December 2016: 2.67). With stable cash inflows generated in the daily business operation, plus the net proceeds raised from listing and convertible bonds, the Group has sufficient financial 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 year ended 31 December 2017.

Management Discussion and Analysis

Capital structure

The Group's total equity and liabilities amounted to approximately RMB653.9 million and RMB184.2 million, respectively as at 31 December 2017 (31 December 2016: RMB566.2 million and RMB129.5 million).

Bank borrowing, convertible bonds and other borrowings, and finance costs

As at 31 December 2017, the total amount of an interest-bearing bank borrowing, convertible bonds and other borrowings from a leasing company of the Group was RMB141.2 million (31 December 2016: RMB97.2 million). During the Year under Review, the Group issued convertible bonds with the principal amount of US$9,000,000. The Group also issued convertible bonds with the principal amount of US$4,000,000 in January 2018.

Finance costs of the Group increased from RMB2.2 million for the year ended 31 December 2016 to RMB4.4 million for the year ended 31 December 2017, representing an increase of approximately RMB2.2 million or 100%. Such increase was mainly attributable to (i) the one-off transaction costs for issuing convertible bonds amounting to RMB1.5 million, (ii) increase in interest expenses of RMB0.4 million on additional borrowings, and (iii) decrease in capitalisation of borrowing costs of RMB0.2 million. The weighted effective interest rate of bank and other borrowings was 5.4% per annum as at 31 December 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 31 December 2017, the net book value of pledged land and buildings, and plant and equipment amounted to approximately RMB99.4 million (31 December 2016: RMB105.9 million).

Capital expenditure

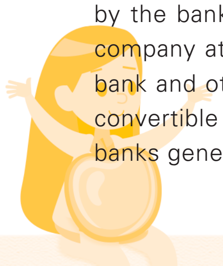
During the Year under Review, our total capital expenditure amounted to RMB22.6 million (2016: RMB103.6 million). A total amount of approximately RMB15.6 million was spent on improvement works on production workshops, ground surface, sewage system, and addition of auxiliary facilities. An approximate of RMB4.4 million and RMB3.3 million was spent respectively on decoration works on integrated development centre, and purchase of plant and machineries.

We also transferred a total amount of approximately RMB74.4 million from construction in progress to primarily the buildings, leasehold improvement and investment properties that are mainly related to the completion of the integrated development centre. The integrated development centre includes the functions such as retail, showroom, office, test and inspection, research and development, meeting and exhibition, sales and marketing, and staff training and development.

The non-current portion of the prepayment included a refundable balance of RMB42.0 million at the PRC government that was brought forward from last year in preparation for participating in the auction for a parcel of land close to our existing production facilities. The addition of approximately RMB12.9 million during the year was prepayments, which is refundable in case of the usage of the acquisition, paid regarding the acquisition of the entire share capital of Strong Won Investment Limited.

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, convertible bonds and the bank and other borrowings. The bank borrowing obtained at variable rates exposes the Group to cash flow interest rate risk which is partially offset by the bank balances held at variable rates. The convertible bonds and borrowings of the Group from a leasing company at fixed rates also expose the Group to fair value interest rate risk. During the Year under Review, the bank and other borrowings of the Group at variable rates and fixed rates were all denominated in Renminbi. The convertible bonds of the Group at fixed interest rate were denominated in USD. The cash deposits placed with banks generate interest at the prevailing market interest rates.



Management Discussion and Analysis

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, convertible bonds and trade receivables denominated in the 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. The management will consider implementing hedging measures in case necessary.

Human resources

As at 31 December 2017, the number of employees of the Group was 624 (31 December 2016: 573). The increase in headcounts 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 RMB30.0 million for the Year under Review (2016: approximately RMB20.9 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, share option scheme and share award 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 31 December 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 31 December 2017, amounted to approximately RMB17.4 million (31 December 2016: RMB18.4 million).

Material acquisitions and disposals

On 15 September 2017, the Group entered into a sale and purchase agreement to acquire the entire share capital of Strong Won Investment Limited and its subsidiaries (the "Acquisition Group") which is principally engaged in the production and sales of processed fruit products at the consideration of HK$55 million, including HK$33 million cash consideration and consideration shares with the value of HK$22 million. The Acquisition Group is based in the central part of the PRC and has its own production facilities. Through the acquisition, the Group 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 acquisition was subsequently completed in January 2018.

The Group placed a refundable prepayments of RMB42 million with 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 lines during the Year under Review. As of the date of this report, no further consideration has been paid.

During the year ended 31 December 2017 and saved as disclosed above, the Group did not have any other material acquisitions or disposals of subsidiaries or associated companies.

Corporate Governance Report

The Company is committed to maintaining good corporate governance standard and procedures to ensure the sound internal control, integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

Corporate Governance Practice

The Company has adopted the code provisions set out in the CG Code as set out in Appendix 14 to the Listing Rules. During the year under review, the Company has complied with the relevant provisions of the CG Code, save and except Code provision A.2.1 of the CG Code, details of which are set out under the sub-paragraph headed "Chairman and Chief Executive Officer" below.

Directors' Securities Transactions

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code under in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code during the Year under Review.

Board of Directors ("Board")

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. Each Director has a fiduciary duty and statutory responsibilities towards the Company. Each Director is aware of his collective and individual responsibilities to all shareholders and that he should give sufficient time and attention to the affairs of the Company. Management was delegated the authorities and responsibilities by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out below.

The composition of the Board and the relevant information for the Year under Review are set out as follows:

Director	Position	Term of office
Mr. Yang Ziyuan	Executive Director, Chairman and Chief Executive Officer	From 7 July 2015 to 15 June 2018
Mr. Sun Xingyu	Executive Director	From 7 July 2015 to 15 June 2018
Ms. Chu Yinghong	Non-executive Director	From 7 July 2015 to 15 June 2018
Mr. Wong Yim Pan	Non-executive Director	From 7 July 2015 to 15 June 2018
Mr. Liang Zhongkang	Independent Non-executive Director	From 7 July 2015 to 15 June 2018
Mr. Tsang Yuen Wai	Independent Non-executive Director	From 7 July 2015 to 15 June 2018
Ms. Hui Yung Yung Janet	Independent Non-executive Director	From 7 July 2015 to 15 June 2018

Except Ms. Chu Yinghong is the spouse of Mr. Yang Ziyuan, the Board members have no financial, business, family or other material relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board; and has met the recommended best practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors are set out on pages 58 to 60 under the section headed "Biographical Details of Directors and Senior Management".

The Board decides on corporate strategies, approves overall business plans and evaluates the Group's financial performance and management. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating performance, the implementation of risk management and internal controls procedures, and the compliance with relevant statutory requirements and other rules and regulations.

Corporate Governance Report

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code as set out in Appendix 14 to 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 is our chief executive officer, and he also performs as the chairman of our Board as he has considerable expertise, experience and network in the fruit processing industry. The Board believes that vesting the roles of both the chairman of our Board and the chief executive officer of the Group 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.

Besides, all major decisions have been made in consultation with members of the Board and appropriate Board committees. In addition, Directors are encouraged to participate actively in all Board and Board committee meetings of which they are members, and the Chairman ensures that all issues raised are properly briefed and adequate time is available for discussion at the Board meetings. The Board is therefore of the view that there are adequate balance of power and safeguards in place. Nevertheless, the Board will continue to regularly monitor and review the Group's current structure and to make necessary changes at an appropriate time.

Independent Non-executive Directors

The three independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of accounting, legal and fruit processing industry. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director has given a confirmation of his/her independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules. The independent non-executive Directors were appointed for a term of three years commencing from 16 June 2015 and are subject to retirement by rotation in accordance with the Articles of Association of the Company.

Board Meeting

During the financial year ended 31 December 2017, the Board held six meetings and the individual attendance of each Director at those meetings are as follows:

Name of Director	Number of Board meetings attended
Mr. Yang Ziyuan	6/6
Mr. Sun Xingyu	6/6
Ms. Chu Yinghong	6/6
Mr. Wong Yim Pan	6/6
Mr. Liang Zhongkang	6/6
Mr. Tsang Yuen Wai	6/6
Ms. Hui Yung Yung Janet	6/6

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

Corporate Governance Report

Directors' Continuous Training and Professional Development

All Directors are aware of their responsibilities to the shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director will receive an induction to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements.

All Directors are provided with regular updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors on an ongoing basis.

Audit Committee

The Company established the Audit Committee on 16 June 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code as set out in Appendix 14 of the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely, Mr. Liang Zhongkang, Mr. Tsang Yuen Wai and Ms. Hui Yung Yung Janet. The Audit Committee is chaired by Mr. Tsang Yuen Wai.

The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the Company's internal audit function and internal control and risk management system of the Group, to oversee the audit process, to review the policies of the Company and to perform other duties and responsibilities as assigned by the Board.

The Audit Committee meets the external auditors at least twice a year to discuss any areas of concern during the audits or review. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal and regulatory requirements in the review of the Company's interim and annual reports.

Moreover, the Audit Committee monitors the compliance with statutory and regulatory requirements, and review the scope, extent and result of the Company's internal audit function.

During the year ended 31 December 2017, the Audit Committee held two meetings to review the annual results for the year ended 31 December 2016 and to review the interim results for the six months ended 30 June 2017 of the Company. Subsequent to 31 December 2017, The Audit Committee held a meeting on 29 March 2018 and reviewed the annual results for the year ended 31 December 2017. The individual attendance of each relevant Director at those meetings are as follows:

Name of Director	Number of meetings attended
Mr. Tsang Yuen Wai	2/2
Mr. Liang Zhongkang	2/2
Ms. Hui Yung Yung Janet	2/2

Corporate Governance Report

Nomination Committee

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the food processing industry and/or other professional area.

The Company established the Nomination Committee on 16 June 2015 with written terms of reference. The Nomination Committee consists of four members, being Mr. Yang Ziyuan, Mr. Liang Zhongkang, Mr. Tsang Yuen Wai and Ms. Hui Yung Yung Janet. Three of the members of the Nomination Committee are our independent non-executive Directors. The Nomination Committee is chaired by Mr. Yang Ziyuan.

The primary function of the Nomination Committee is to make recommendations to the Board on the appointment of members of the Board; and will perform ongoing review on the structure, size, composition and diversity of the Board on a regular basis and make recommendations on any proposed changes to the Board; and monitor the training and continuous professional development of Directors and senior management.

Pursuant to the CG Code, the Board adopted a board diversity policy (the "Board Diversity Policy") on 16 June 2015. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of those perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. During the year ended 31 December 2017, the Nomination Committee held one meeting to review the structure, size and composition of the Board and concluded that members of the Board has possessed the expertise and independence to carry out the Board's responsibilities, and the board diversity policy has been duly implemented. The individual attendance of each relevant Director at the meeting are as follows:

Name of Director	Number of meeting attended
Mr. Yang Ziyuan	1/1
Mr. Liang Zhongkang	1/1
Mr. Tsang Yuen Wai	1/1
Ms. Hui Yung Yung Janet	1/1

Remuneration Committee

The Company established the Remuneration Committee on 16 June 2015 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the CG Code as set out in Appendix 14 of the Listing Rules. The Remuneration Committee consists of four members, being Mr. Liang Zhongkang, Mr. Yang Ziyuan, Mr. Tsang Yuen Wai and Ms. Hui Yung Yung Janet. Three of the members of the Remuneration Committee are the independent non-executive Directors. The Remuneration Committee is chaired by Mr. Liang Zhongkang.

The primary duties of the Remuneration Committee include (but not limited to): (i) making recommendations to the Directors regarding the policy and structure for the remuneration of all the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of the Directors and senior management; (iii) assessing performance of the Directors and senior management and reviewing and approving the terms of management's remuneration proposals with reference to the Board's corporate goals and objectives; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme.

Corporate Governance Report

The remuneration policy for the Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the performance of the Group and the individual performance of the Directors and senior management members.

During the year ended 31 December 2017, the Remuneration Committee held one meeting to approve the remuneration packages and performance bonus for the Directors and senior management of the Company. The individual attendance of each relevant Director at the meeting are as follows:

Name of Director	Number of meeting attended
Mr. Liang Zhongkang	1/1
Mr. Yang Ziyuan	1/1
Mr. Tsang Yuen Wai	1/1
Ms. Hui Yung Yung Janet	1/1

During the consideration of the remuneration, no individual Director was involved in decisions relating to his own remuneration.

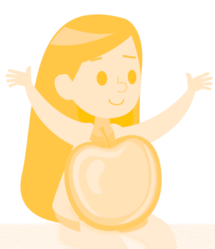
Strategic Development Committee

The Company established the Strategic Development Committee on 16 June 2015. The Strategic Development Committee consists of five members, being Mr. Yang Ziyuan, Mr. Sun Xingyu, Ms. Chu Yinghong, Mr. Wong Yim Pan and Mr. Liang Zhongkang. Mr. Yang Ziyuan has been appointed as the chairman of our Strategic Development Committee.

The primary function of the Strategic Development Committee is to formulate the overall business strategies of the Group. The Strategic Development Committee is also responsible for monitoring the implementation of the business strategies of the Group.

During the year ended 31 December 2017, the Strategic Development Committee held one meeting to review of business decision and advise on future business development and strategies of the Company. The individual attendance of each relevant Director at the meeting are as follows:

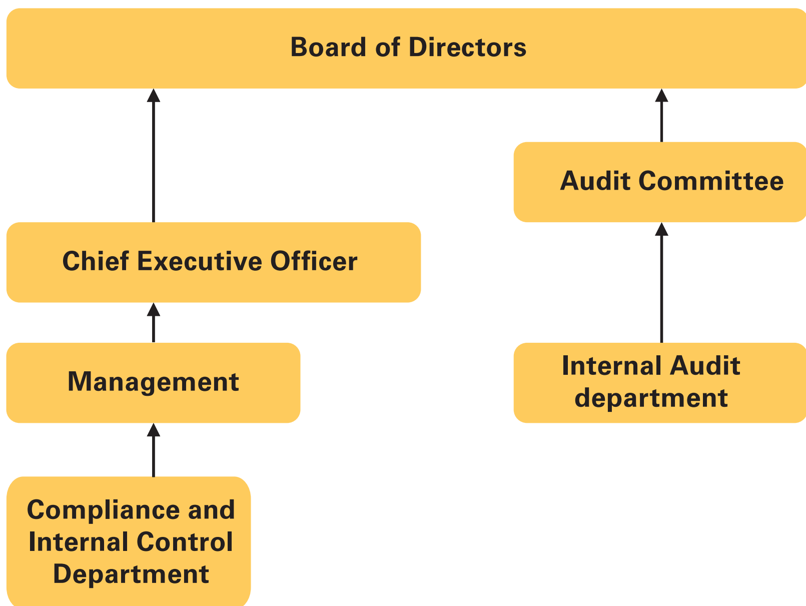
Name of Director	Number of meeting attended
Mr. Yang Ziyuan	1/1
Mr. Sun Xingyu	1/1
Mr. Liang Zhongkang	1/1
Mr. Wong Yin Pan	1/1
Ms. Chu Ying Hong	1/1



Corporate Governance Report

Risk Management and Internal Control

Sufficient and effective risk management and internal control systems provide reasonable guarantee for the realisation of the Company's strategic objectives. In order to guarantee the effectiveness of risk management and internal control systems, the Group, under the supervision and guidance of the Board, has adopted systematic risk management methods and established a risk management and internal control organization structure with clear responsibilities and reporting procedures to identify and alleviate the risks impeding the accomplishment of corporate objectives, which is in line with the requirements of the Stock Exchange on amendments to relevant CG Code provisions on risk management.



The Board is responsible for assessing and determining the nature and extent of risks that the Company is willing to accept for achieving the purposes, and procuring the Company to set up and maintain proper and effective risk management and internal control systems; and supervising the management's design, implementation and monitoring of risk management and internal control system through the Audit Committee.

In addition to monitoring the Company's finance, internal control and risk management, the Audit Committee is also in charge of monitoring the implementation of relevant amended CG Code provisions on risk management.

The Chief Executive Officer and the Management are responsible for the design, implementation and monitoring of risk management and internal control systems, and confirming the effectiveness of risk management and internal control systems and making a report to the Board in this regard at least once a year.

The Compliance and Internal Control Department is responsible for coordinating and arranging risk assessment and risk response, and promoting risk management and risk assessment.

The Internal Audit Department must arrange post check, audit and monitoring for the risk management and internal control systems, and conduct independent assessment for internal audit activities.

These systems aim at managing, instead of eliminating, of the risks that may impede us from realisation of the Company's strategy and making reasonable and non-absolute guarantee for material misrepresentation or loss.

Corporate Governance Report

Risk management procedures

The Group has established a risk management framework, including the construction of the architecture for the aforementioned organisation and definition of the responsibilities of all parties concerned, and prepared risk management policies and processes and clarified the risk assessment procedures, which, specifically include risk identification, risk analysis, risk control and risk report.

Step 1: Risk identification – identify current risks exposed to the Group and business and existing management and control measures therefor.

Step 2: Risk analysis – analyse the possibility, extent of influence and existing management and control measures, identify risk exposure, and propose further counter-measures.

Step 3: Risk control – implement and periodically detect the identified risks to ensure effective operation of risk counter-measures.

Step 4: Risk report – summarise the results of risk management analysis, prepare action plans and report to the management, Audit Committee and the Board.

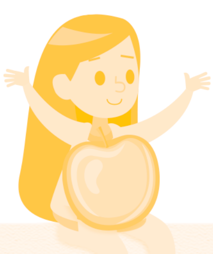
During the Year under Review, the Group engaged an independent professional agency to assist the Compliance and Internal Control Department in carrying out risk assessment, analysing the risks in terms of possibility and extent of influence, and determining the risks of the Group. With the assistance of the Audit Committee, the Board has reviewed the effectiveness and sufficiency of risk management and internal control systems of the Group.

Internal control

The Group has developed an internal control mode, following the principle of COSO, consisting of five elements, i.e. control environment, risk assessment, control, information and communication, and monitoring. In this control mode, the Group's management is responsible for design and implementation of internal control measures and maintenance of the effectiveness thereof, and the Board and Audit Committee will supervise the appropriateness of internal control measures as designed by the management and the effective implementation of internal control measures. To further strengthen the management's responsibilities to the Group's internal control system and confirmation work on the effectiveness of the Group's internal control systems during the Year under Review, compliance and internal control department, in accordance with the COSO framework, assisted the management to set up the internal self-assessment questionnaire, guided the senior management team to make self-assessment and collected the result thereof. The Chief Executive Officer reviewed the circumstances of the self-assessment of each senior management, assessed the overall effectiveness of the Group's internal control system, and represented the Group's senior management team to submit a letter of confirmation to the Audit Committee and Board.

In order to comply with the requirements of the CG Code on risk management and internal control of the Group, the Group has set up an Internal Audit Department, with an aim to continuously improve the effectiveness of risk management and internal control of the Group. The manager of Internal Audit Department should prepare a risk-oriented annual audit plan, and, on the basis of risk assessment results, determine the work focus of internal audit that is in line with the organization objective. The annual plan should be subject to approval by the Audit Committee.

The establishment of internal control system is for the purpose of management of possible risks instead of elimination of risks. Meanwhile, the internal control should adapt to the Group's scale of operation, scope of business, competition and risks, and be subject to adjustments according to changes in circumstances in a prompt manner. It will be a long-lasting and continuous work for the Group to improve internal control system, execute standard system and intensify supervision and examination of internal control.



Corporate Governance Report

Inside information

The Group has formulated relevant policies and processes for inside information management. It is stipulated that the Group's sensitive or important information should be collected and determined as to whether it constitutes inside information by the secretary of the Board, and then be submitted to the management for review and assessment on the extent of its implications before submission to the Board for discussion and determination of compliance requirement. With a view to effectively implement the policy treatment procedures for the Group's inside information, the Group has provided inside information training for Directors, supervisor, management and other personnel with possible access to inside information.

Review of the effectiveness of risk management and internal control systems

The Board has, through the Audit Committee, reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting functions, and their training programmes and budget, and was satisfied with the results of the review.

In 2017, the Audit Committee, on behalf of the Board, conducted a review on the effects of the Group's risk management and internal control systems. As suggested by the Audit Committee, the Board was satisfied that the Group has complied with the provisions regarding risk management and internal controls as required under the CG Code. For the year ended 31 December 2017, the Board is of the view that the risk management and internal control systems are effective and sufficient, and no material matters which may affect the Shareholders were identified in relevant periods.

For details of the Group's shortcomings in operation or potential risks identified in the year ended 31 December 2017 and counter-measures therefor, please refer to the "Report of the Directors" in the annual report.

Auditors' Remuneration

During the Year under Review, the remuneration provided and paid to the Company's external auditors, PricewaterhouseCoopers, was approximately RMB1.8 million and RMB0.3 million for audit services and non-audit services respectively. The non-audit services rendered was the fees for the provision of advisory services for risk management and internal control.

Directors' Responsibility for the Consolidated Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The statement by the auditors of the Company about their reporting responsibilities on the financial statements for the year ended 31 December 2017 are set out on page 63 of this annual report.

Company Secretary

The Company Secretary is Mr. Ho Ho Tung Armen. The biographical details of the Company Secretary are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. The Company Secretary took not less than 15 hours of relevant professional training in the year ended 31 December 2017 as required under Rule 3.29 of the Listing Rules.

Corporate Governance Report

Shareholders' Rights to Convene a General Meeting

The general meetings of the Company provide an opportunity for communications between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Shareholders may convene an extraordinary general meeting of the Company according to the provisions as set out in the Articles of Association and the BVI Business Companies Act. The procedures shareholders can use to convene an extraordinary general meeting are set out in the paragraph headed "Procedures for Putting Forward Proposals by Shareholders at General Meeting" below.

Procedures for Putting Forward Proposals by Shareholders at General Meeting

Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the issued shares of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

Putting Enquiries by Shareholders to the Board

To ensure effective communications between the Board and the shareholders and the investment community at large, the Company's information are communicated to the shareholders and the investment community mainly through the Company's financial reports (interim reports and annual reports), and its corporate communications and other corporate publications on the Company's website and the Stock Exchange's website. Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be directed to the Board at the Company's principal place of business in Hong Kong at Unit 605, 6th Floor, Beautiful Group Tower, 74-77 Connaught Road Central, Central, Hong Kong or by email at info@tianyuninternational.com.

Constitutional Documents

During the year ended 31 December 2017, there was no amendment to the articles of association of the Company.

The existing articles of association of the Company are available on the websites of the Stock Exchange and the Company.

Communications with Shareholders and Investors

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board as well as the chairman or member of each of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategic Development Committee together with the external auditor are present to answer shareholders' questions. The annual report together with annual general meeting circular are distributed to all the shareholders at least 20 clear business days before the annual general meeting.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions set out in the notice of the 2018 annual general meeting will be voted by poll.

Report of the Directors

The directors of the Company (the "Directors") are pleased to present their annual report with the audited consolidated financial statements of the Company and its subsidiaries and the independent auditor's report for the year ended 31 December 2017.

Corporate Information

The Company was incorporated in the British Virgin Islands ("BVI") with limited liability on 8 September 2011. The Company's shares were listed on the Main Board of Stock Exchange on 7 July 2015 (the "Listing Date").

Principal Activities

The Company is an investment holding company. The Group is principally engaged in (i) the production and sales of processed fruit products packaged in metal containers, plastic cups and glass containers and (ii) trading of fresh fruit. Processed fruit products are sold under our own brands and on an OEM basis.

Business Review

Key financial and business performance indicators

A review of the Group's business and the analysis using the financial key performance indicators are set out on page 25 to 35 of this annual report under the paragraphs headed "Business Review" and "Financial Review" in the section headed "Management, Discussion and Analysis" of this annual report. In summary, the Group continued to implement the parallel development strategy on its own brand and OEM business in 2017 and continued to record a remarkable performance with revenue and gross profit increased by 14.1% and 2.5% respectively, including approximately 71.4% year-on-year revenue growth of our own brand products, which accounted for 43.2% of the Group's total revenues. Net profit for the year was RMB123.6 million.

Environmental, Social and Governance

During the year, the Group follows the development commitments of "protecting environment, people oriented, law-abiding, honest and impartial, customer focus", we continue to improve all major aspects of the operating policies, and received wide recognition. Our Group is committed to contributing to the sustainability of the environment and maintaining a high standard of corporate social governance essential for creating a framework for motivating staff, and contributes to the community in which we conduct our businesses and creates a sustainable return. In 2017, we strived to build an environmentally friendly enterprise with enhancement of energy usage efficiency, implementation of various emissions reduction measures, and improvement in resource usage efficiency. Through refining our corporate code of production operations process, our safety code and our staff safety code, we made comprehensive improvements to the safety awareness and corporate sense of belonging of our staff. We also organised a series of community care activities to do our utmost in contributing to society.

Details of our environmental, social and governance measures are set out on page 7 to 24 of this annual report in the section headed "Environmental, Social and Governance Report" of this annual report.

Relationship with Customers and Suppliers

The Group understands the importance of maintaining good relationship with its customers and suppliers to meet its immediate and long-term business goals. During the year ended 31 December 2017, there were no material and significant dispute between the Group and its customers and suppliers.

Report of the Directors

Compliance with laws and regulations

The Group has compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing obligation to monitor adherence and compliance with all significant legal and regulatory requirements. As far as the Company is aware and save and except for certain deviation from the CG Code as set out under Appendix 14 of the Listing Rules, it has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

Workplace Quality

The Group always takes people as the foremost. The Group also recognises the importance of good working relationship with its employees. During the year, the Group has not experienced any significant problems with its employees nor significant labour disputes or industrial actions. The Group continued to support the social responsibilities for long-term, and contribute to the society enthusiastically, as all the related plans have been arranged since the establishment of the company while promoting the development of enterprises. In terms of the human resources management, the Group has established a sound personnel management program, including the protection of labour rights and interests to avoid illegal recruitment as well as the staff training system, etc. The Directors believe that the Group has good working relationship with its employees as a whole.

Principal risks and uncertainties

The Group is principally engaged in the sales and manufacturing of processed fruits products and trading of fresh fruits. It is exposed to a variety of key risks including credit risk, interest risk, liquidity risk, operational risk and market risk. Details of the aforesaid key risks and risk mitigation measures are elaborated in note 3 headed "Financial risk management" to the Consolidated Financial Statements of this annual report.

In 2017, the Group identified its critical risks through its risk management process. Following the continuous changes in the scale of business, scope of operation and external environment, the management believe that the three critical risks disclosed in the annual report 2016 still existed. Apart from the Merger and Acquisition Risk that remained at the same level, the other two risks had shown a mitigating trend. For the effects of each category of risks on the Group, the Group has given a detailed description, and prepared corresponding alleviating/avoiding measures to manage such risks. Details are as follows:

Risk in respect of Product Quality and Food Safety

Product quality and food safety are crucial to the food processing industry and the Group has always attached great importance thereto. 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. Any incidents in connection with product quality and food safety may adversely affect the confidence of the public towards the products of the Group, which in turn affect the business and results of operation of the Group.

Risk Management Measures: The Group is committed to provision of healthy and safe products for customers in strict compliance with international 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. Due to the establishment of an effective supplier evaluation mechanism, all the suppliers are reviewed regularly to reassure that they have a required level of corporate credit and product quality, thus ensuring the product quality and safety from the original source. Continuous efforts are made to provide intensified professional training for the staff of quality control, production management and R&D departments, and conduct test and examination for the raw and auxiliary materials to be warehoused. The finished products to be warehoused are subject to test by batches with stringent processes, so as to ensure safe and sanitary product production process. In addition, test and examination should be conducted for the products before delivery to prevent the delivery of disqualified products. The Group has established and continuously improved the product tracing mechanism, and has a product quality emergency response plan in place.

Report of the Directors

Merger and Acquisition Risk

In order to satisfy the increasing orders, 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 the Group's culture, poor financial position of acquisition target, and excessive diversion of the Group's resources and management's concern in acquisition. Failure to acquire suitable targets may result in the Group not able to create synergies with these targets, which may in turn affect our operation and loss of expected profits.

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 risks. The Group may retain the original qualified management of the target group to ensure management stability of the target group as far as possible. Trainings will also be offered to all staff of the target group to gradually form a uniform group culture. The Group will adopt the optimised way of fund payment, and improve the internal audit function and the Group's anti-jobbery mechanism on a continued basis to put an end to jobbery.

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. Failure in building up the positive image of our brand to the public may hinder our future growth and competitiveness, which may in turn affect the results of operation of the Group.

Risk Management Measures: The Group's existing registered brands include "果小懶","Bingo Time" and "Tiantong Times". Ever since the last year, 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, and, with the assistance of the market brand consultant, and gradually increase investment in advertisement to promote brands and the Group's image by further leveraging on media resources.

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 a concern.

Use of Proceeds from IPO

On 7 July 2015, the Company's shares were listed on the main board of the Stock Exchange. A total of 250,000,000 shares were issued to the public at HK$1.28 per share for a total gross proceeds of HK$320 million. The total net proceeds raised form the IPO of the Company were approximately HK$274.9 million after the deduction of related listing expenses. The use of proceeds has been consistent with the disclosure in the prospectus of the Company dated 24 June 2015. Up to the date of this annual report, the respective use of the net proceeds is as follows:

Net proceeds from IPO

	Available RMB million Equivalent	Used RMB million Equivalent	Unused RMB million Equivalent
Capital expenditure on new production facilities	113.4	42.0	71.4
Expand distribution and sales network	34.0	34.0	–
Enhance our brand awareness and promote the on-line shopping platform	34.0	34.0	–
Enhance our research and development capabilities	11.3	11.3	–
Enhance the information technology systems and infrastructure	11.3	11.3	–
Working capital and general corporate purposes	22.7	22.7	–

Report of the Directors

Future business development

Facing various market opportunities in future, the Group will consolidate resources in all areas, implement streamlined management and a de-seasonalised production strategy, in order to raise corporate core competitiveness. The Group will accelerate the development of branding, new products, sales channels and production capacity to create sustainable development and better results.

For branding, the Group will work on brand planning to create a fresh brand image and reinvent brand value, as well as cooperate with regional distributors to promote comprehensive marketing activities, raise brand recognition and reputation of its own brand, and further strengthen the Group's position as market leader. For products and product categories, the Group will, either through conducting internal research and development or forming strategic partnerships with third-party research institutes, develop and launch product series with more new flavours and diversity, in order to satisfy market demands. Further, the Group will accelerate expansion of its product lines through introducing new product categories such as functional foods.

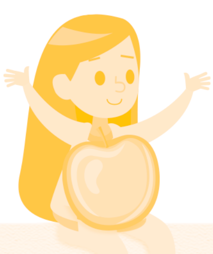
Regarding channels, the Group will strengthen its strategic positioning in the online-offline parallel development mode, with WeChat Business and Tmall continuing to serve as the Group's main online e-commerce platforms. The Group will accelerate the building of offline sales network domestically and in Hong Kong and Macau, as well as actively participate in large domestic food-related fairs and expositions to strengthen and reinforce offline positions. While the Group is vigorously developing the domestic business, it has been continuously seeking opportunities to enter into the overseas market.

With regard to production capacity, the Group will explore the de-seasonalised modes of production, and sustain its dedication in improving and upgrading existing production facilities to raise productivity and capacity so as to match the pace of business development. The Group will also consolidate the production capacity in the Hubei production base, and accelerate the development and expansion of its operation. Meanwhile, the Group intends to seek acquisition targets located in Guangxi and Yunnan Provinces focusing on processing tropical fruit, in which the Group hopes to eventually cover the fruits in three climate zones including tropical, subtropical and temperate climate zone, thus expanding our product line and widening our source of revenue, and becoming a leading processed food corporation that can process all varieties of fruit.

As a renowned food processor in China, the Group has consistently upheld the strictest standards on every aspect of food safety. Driven by the efforts of our entire staff and with the healthy development of the industry, the Group will continue its stable and robust growth, and serve to the consumer at large with healthy, safe, tasty, and convenient processed foods.

Results and Dividend

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of comprehensive income on page 65. The Board has proposed a final dividend of HK$0.026 per share for the year ended 31 December 2017, to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at 4 June 2018. Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company (the "2018 AGM"), the final dividend will be paid on or about 25 June 2018.



Report of the Directors

Closure of Register of Members

For determining the entitlement to attend and vote at the 2018 AGM, the register of members of the Company will be closed from 17 May 2018 to 23 May 2018 (both days inclusive), during such period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2018 AGM, all transfer of shares of the Company accompanied by the relevant share certificate(s) and appropriate transfer form(s) must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 16 May 2018.

For determining the entitlement to receive the proposed final dividend, the register of members of the Company will be closed from 30 May 2018 to 4 June 2018 (both days inclusive), during such period no transfer of shares of the Company will be registered. In order to be eligible to receive the proposed final dividend, all transfer of shares of the Company accompanied by the relevant share certificate(s) and appropriate transfer form(s) must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 29 May 2018.

Major Customers and Suppliers

During the year, the aggregate sales to the Group's five largest customers accounted for approximately 26.4% of the Group's total revenue and sales to the Group's largest customer was approximately 7.4% of the Group's total revenue.

During the year, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 28.8% of the Group's total purchases, and the purchases attributable to the Group's largest supplier was approximately 9.2% of the Group's total purchases.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had interests in the Group's five largest customers or suppliers.

Property, Plant and Equipment

Details of the movement in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Group and Company during the year are set out in note 21 and 32 to the consolidated financial statements respectively.

Reserves

As at 31 December 2017, the Company's reserves available for distribution amounted to approximately RMB21.5 million. Under the BVI Business Companies Act, the reserves of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be distributed, the Company shall be able to pay its debts as they fall due in the ordinary course of business. Details of the movements in reserves of the Group and of the Company during the year are set out in notes 21 and 32 to the consolidated financial statements respectively.

Report of the Directors

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the BVI, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Tax Relief

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's shares.

Financial Summary

A summary of the consolidated results of the Group for the past five financial years and of its consolidated assets and liabilities as at the end of the past five financial years is set out on page 115 of this annual report.

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

During the year ended 31 December 2017, the Company repurchased and cancelled 2,114,000 of its own ordinary shares on the Stock Exchange 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$)	Lowest (HK$)
January 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 year. Details of the share repurchases and other movements in the share capital of the Company during the year are set out in note 21 to the consolidated financial statements.

Equity-linked Agreements

Other than the Share Option Scheme and the Convertible Bonds as disclosed in this annual report and note 23 and note 27 to the consolidated financial statements respectively, no equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

Arrangements to Purchase Shares or Debentures

Save for the Share Option Scheme (as defined below) and the Share Award Scheme (as defined below), at no time during the year was the Company, its controlling shareholders, holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Report of the Directors

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.

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 in its absolute discretion shall determine, save that such price will be at least the higher of:

(i) the 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 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 remains effective for a period of ten years commencing from 16 June 2015. Details of the Scheme are set out in note 23 to the consolidated financial statements.

Report of the Directors

Movements of the Company's share options during the year ended 31 December 2017 were as follows:

Grantee	Outstanding 01/01/2017	Exercised during the year ended 31/12/2017	Forfeited during the year ended 31/12/2017	Outstanding at 31/12/2017	Date of Grant	Exercised period	Exercise price (HK$)	Price of the Company's share immediately before the grant date
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				
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				

Note:

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:

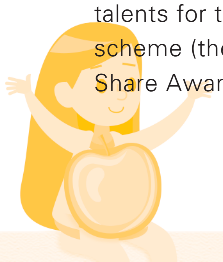
   (a) 50% of the share options shall be exercisable during the period from 1 January 2017 to 31 December 2019 (upon vesting of the same on 31 December 2016 on the condition that the relevant grantee is still the employee of the Group at the material time);

   (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).

Share Award Scheme

On 30 March 2016, to provide incentives to the selected participants (including, inter alia, directors, employees, officers, agents or consultants of the Company or any of its subsidiaries) and allow the Group to attract and retain talents for the continued operation and development of the Group, the Board has resolved to adopt the share award scheme (the "Share Award Scheme"). During the year ended 31 December 2017, no share was granted under the Share Award Scheme.



Report of the Directors

Subsidiaries

Details of the Company's subsidiaries as at the date of this annual report are set out in note 16 to the consolidated financial statements.

Retirement Benefit Scheme

As required by PRC regulations as well as mandatory rules of the PRC governments, the Group participates in various social welfare schemes including pension, medical, maternity, work-related injury insurances, unemployment insurance and housing provident fund contributions. The Group is required under PRC laws to make contributions to these schemes based on certain percentages of the salaries, bonuses and certain allowances of the employees of the Group in accordance with the respective regulatory requirement, up to a minimum amount specified by the relevant governments from time to time.

The employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong).

The total expense recognised in profit or loss statement of approximately RMB1.8 million (2016: RMB1.8 million) represents contributions paid and payable to the retirement benefit scheme during the year ended 31 December 2017.

Donations

In 2017, we donated a total of approximately HK$208,897 for charitable purpose (2016: HK$97,957).

Directors

The Directors during the year ended 31 December 2017 and up to the date of this annual report were:

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

According to Articles 75(1) and (2) of the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

Report of the Directors

According to Articles 75(1) and (2) of the Articles of Association of the Company, Ms. Chu Yinghong, Mr. Liang ZhongKang and Ms. Hui Yung Yung Janet will retire by rotation during the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In compliance with Rule 3.10(1) of the Listing Rules, the Board currently comprises three independent non-executive Directors, representing more than one-third of the Board.

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out on pages 58 to 60 to this annual report.

Directors' Service Contracts

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of 3 years with effect from 16 June 2015.

Each of our non-executive Directors and independent non-executive Directors has signed a letter of appointment with our Company respectively. The term of office of our non-executive Directors and independent non-executive Directors is 3 years with effect from 16 June 2015.

None of the Directors has entered into any service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Interests in Transactions, Arrangement or Contracts

No transactions, arrangement or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, and there were no transactions, arrangement or contracts of significance for the provision of services to the Group by the controlling shareholder of the Company.

Directors' Indemnity

According to the articles of association of the Company, the Directors for the time being of the Company acting in relation to any of the affairs of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty in their respective offices or trusts.

The Company has taken out appropriate insurance cover in respect of legal action against the Directors during the year ended 31 December 2017.

Related Parties Transactions

Details of related party transactions entered into during the year were disclosed in note 31 to the consolidated financial statements. These related party transactions either did not constitute connected transactions under the Listing Rules or were discontinued prior to the listing of the Company's shares on the Stock Exchange.

Report of the Directors

Deed of Non-Competition

In accordance with the terms of a deed of non-competition executed in favour of the Company dated 16 June 2015 (the "Non-competition Deed"), each of Wealthy Active Limited and Mr. Yang Ziyuan (collectively, the "Covenantors") has provided with the Company an annual confirmation in respect of its/his compliance with the terms of the Non- competition Deed. Under the terms of the Non-competition Deed, each of the Covenantors has undertaken to the Company to, among others, procure that it/he or any of its/his associates will not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activities of the Group or any business activities which the Group may undertake in the future.

Directors' Interests in Competing Businesses

None of the Directors or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Independent Non-executive Directors

Each of the Independent Non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all of the Independent Non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

Interests or Short Positions of Directors and the Chief Executive in Shares, Underlying Shares and Debentures of the Company or the Associated Corporations

As at 31 December 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 Position in Ordinary Shares and Underlying Shares of the Company

Name of Directors	Capacity/Nature of interest	Number of shares held	Approximate percentage of total issued share capital
Mr. Yang Ziyuan	Interest of a controlled corporation	451,617,000 (note 1)	46.20%
Ms. Chu Yinghong	Interest of spouse	451,617,000 (note 2)	46.20%
Mr. Sun Xingyu	Interest of a controlled corporation	110,000,000 (note 3)	11.25%
Mr. Tsang Yuen Wai	Beneficial owner	192,000 (note 4)	0.02%

Report of the Directors

Notes:

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

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

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

4. Mr. Tsang Yuen Wai, an independent non-executive Director, has purchased certain Shares but due to inadvertent oversight, he has filed the relevant notice beyond the stipulated deadline.

Save as disclosed above, as at 31 December 2017, none of the Directors 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.

Interests and Short Positions of the Substantial Shareholders in Shares and Underlying Shares of the Company

As at 31 December 2017, so far as is known to the Directors or chief executive of the Company, the following persons or corporations other than Directors or chief executive of the Company, who had an interest or short position of 5% of more 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 Directors	Capacity/Nature of interest	Number of shares held	Approximate percentage of total issued share capital
Wealthy Active Limited (note 1)	Beneficial owner	451,617,000	46.20%
Wealthy Maker Limited (note 2)	Beneficial owner	110,000,000	11.25%
Sino Red Limited (note 3)	Beneficial owner	73,467,000	7.52%

Notes:

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

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

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

Save as disclosed above, so far as is known to the Directors 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 or any of its associated corporations which were or 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 register required under section 336 of the SFO as at 31 December 2017.

Report of the Directors

Corporate Governance Practices

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report as set out on pages 36 to 44 of this annual report.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, since the Listing Date and up to the date of this annual report, at least 25% of the Company's issued shares were held by the public as required under Rule 8.08 of the Listing Rules.

Review of the Final Results by Audit Committee

The Audit Committee has reviewed together with the management and the Company's independent auditor the accounting principles and practices adopted by the Group and has discussed auditing, internal control and financial reporting matters, including the review of the audited consolidated financial statements for the year ended 31 December 2017.

Auditor

The consolidated financial statements for the year ended 31 December 2017 were audited by PricewaterhouseCoopers. A resolution for the reappointment of PricewaterhouseCoopers as the Company's independent auditor and authorising the Board to fix its remuneration will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
Tianyun International Holdings Limited

Yang Ziyuan
Chairman

Hong Kong, 29 March 2018

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Yang Ziyuan (楊自遠), *Chairman and Chief Executive Officer*

Mr. Yang Ziyuan, aged 54, was appointed as our executive Director, Chairman of the Board and the Chief Executive Officer on 8 September 2011. He is responsible for the overall planning and strategic development of our Group's business. He joined Tongtai as a director and vice chairman in March 1995 and co-founded Shandong Tiantong with Mr. Sun in 2003 as a president and chairman of the board. Mr. Yang is the spouse of Ms. Chu Yinghong, one of our non-executive Directors.

Mr. Yang graduated from Qinggong Worker University of Hangzhou (杭州輕工職工大學) focusing on food engineering in July 1988, and completed a course in Master of Business Administration in Renmin University of China in July 2001. Prior to founding our Group, he worked as an equipment technician in Linyi Canney (臨沂市罐頭廠) from September 1989 to May 1990. Between May 1990 and March 1995, he was the manager in the production technology department, the assistant of the general manager, the deputy chief engineer and deputy general manager of Linyi Carrie Enterprises Company (臨沂凱利實業公司). Between January 1998 and December 2012, he was the general manager and chairman of the board of Linyi Jinhua Food Company Limited (臨沂金花食品有限公司), a company established in the PRC and whose principal business is the processing of roasted food and nut products. Since January 1995, he has been the general manager and chairman of the board of Linyi Yuanyu Trading Co., Ltd. (臨沂遠宇貿易有限公司) ("Yuanyu"), whose principal business is operating of and acting as agent for import and export of various types of goods and technology.

Mr. Sun Xingyu (孫興宇)

Mr. Sun Xingyu, aged 57, was appointed as our executive Director on 10 November 2014. He is responsible for financial management of our Group. He has been a director of Tongtai since December 1996 and co-founded Shandong Tiantong in 2003, being responsible for the financial management of our Group.

Mr. Sun graduated from Finance School of Shandong Province (山東省財政學校) in July 1981 and completed a course in Chinese Language and Literature in Shandong Radio and Television University (山東廣播電視大學) in November 1988. Prior to joining our Group, he has been the deputy general manager of Yuanyu, whose principal business is operating and acting as agent for import and export of various types of goods and technology. Between January 1998 and December 2012, he was the deputy general manager of Linyi Jinhua Food Company Limited (臨沂金花食品有限公司), a company established in the PRC and whose principal business is processing of roasted food and nuts products.

Non-executive Directors

Ms. Chu Yinghong (褚迎紅)

Ms. Chu Yinghong, aged 57, was appointed as our non-executive Director on 10 November 2014. She is responsible for providing advice on strategic development of our Group. She joined our Group in January 2003 as a Director of Shandong Tiantong. Ms. Chu is the spouse of Mr. Yang, one of our executive Directors.

Ms. Chu completed a course in Chinese Language and Literature in Shandong Radio and Television University (山東廣播電視大學) in November 1988. Prior to joining our Group, she has been employed by Linyi Carrie Enterprises Company (臨沂凱利實業公司) as an assistant engineer during the period between July 1993 and July 1996. Since September 2000, she has been the deputy general manager, general manager and the chairman of the board of Linyi Jinhua Food Company Limited (臨沂金花食品有限公司).

Biographical Details of Directors and Senior Management

Mr. Wong Yim Pan (黃炎斌)

Mr. Wong Yim Pan, aged 50, was appointed as our Director on 10 November 2014 and re-designated as our non- executive Director on 16 June 2015. He is responsible for providing advice on strategic development of our Group. Mr. Wong graduated from The University of Hong Kong with a degree of bachelor of science in engineering in December 1989. He obtained a master degree in business administration from The Chinese University of Hong Kong in October 1992.

Mr. Wong was conferred by Hong Kong Institute of Certified Public Accountants as a certified public accountant in July 1995. He has been a fellow of The Association of Chartered Certified Accountants since February 2000, and of The Institute of Chartered Accountants in England & Wales since April 2015. He has been an associate of The Chartered Institute of Management Accountants since August 1998, and of The Hong Kong Institute of Chartered Secretaries since August 2011. He has also been a CFA charter holder of the CFA Institute since September 2006, and a member of The Association of Corporate Treasurers since January 2006.

Mr. Wong worked as a supervisor of the audit division of Coopers & Lybrand (now known as PricewaterhouseCoopers), an international audit firm at that time from December 1992 to March 1996. He has been the assistant manager of New World Infrastructure Limited, an infrastructure company then listed on the Stock Exchange (stock code: 0301), from March 1996 to May 2000. He worked at Alcatel-Lucent, a global telecommunications equipment company as the internal auditor, senior internal auditor and audit manager from May 2000 to August 2010, and worked as the senior audit manager of Shui On Land Limited, a property development company listed on the Stock Exchange (stock code: 0272) from September 2010 to February 2012. Afterwards, he has been the chief operating officer of Ocean Equity Partners Limited since March 2012, being responsible for project appraisal, operational control and management, accounting and administrative matters.

Independent Non-executive Directors

Mr. Liang Zhongkang (梁仲康)

Mr. Liang Zhongkang, aged 73, was appointed as our independent non-executive Director on 16 June 2015. Mr. Liang completed a course in food engineering in Wuxi Institute of Light Industry (無錫輕工業學院) (now known as Jiangnan University (江南大學)) in August 1968. He was conferred as a senior engineer by China Light Industry Association (中國輕工總會) in December 1993.

Mr. Liang worked as a senior engineer in the division of food and paper manufacturing of China Light Industry Association (中國輕工總會) from July 1987 to December 2000. He is currently the chairman of the executive committee of China Canned Food Industry Association (中國罐頭工業協會), and he was an independent director of ORG Packaging Co., Ltd. (奧瑞金包裝股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002701), from January 2011 to June 2017.

Mr. Tsang Yuen Wai (曾苑威)

Mr. Tsang Yuen Wai, aged 42, was appointed as our independent non-executive Director on 16 June 2015. Mr. Tsang graduated from The Hong Kong Polytechnic University with a degree of bachelor of arts in accountancy in November 1998.

Mr. Tsang has been admitted as a Fellow of The Association of Chartered Certified Accountant since May 2007. Mr. Tsang is currently a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Tsang has worked in PricewaterhouseCoopers Ltd. as an associate and was promoted to manager during the period from September 1998 to August 2003. He has been the general manager of SPRO Technology Consulting Limited since April 2008.

Biographical Details of Directors and Senior Management

Ms. Hui Yung Yung Janet (許蓉蓉)

Ms. Hui Yung Yung Janet, aged 52, was appointed as our independent non-executive Director on 16 June 2015. Ms. Hui graduated from The University of Hong Kong with a bachelor degree in laws in November 1987, and completed a course of Postgraduate Diploma in Chinese Law, which was a distance learning course jointly organised by Tsinghua University and HKU School of Professional and Continuing Education, in December 2002.

Ms. Hui was admitted as a solicitor of the High Court of Hong Kong in September 1990. She was an associate of Johnson Stokes & Master (now known as Mayer Brown JSM) from May 1992 to June 1995. She worked as a solicitor in the Asian department of a law firm in New Zealand from April 1996 to February 1999. She acted as the senior legal consultant of Wharf T&T Limited from January 1999 to July 2004. Afterwards, she joined Jun He Law Offices in August 2004, and has been a partner of the firm since 2007.

Senior Management

Ms. Lv Chunxia (呂春霞), aged 53, is our deputy general manager who joined our Group in January 2003, being responsible for overseeing our production, product quality inspection and product development.

Ms. Lv completed a course in Chinese Language and Literature in Shandong Radio and Television University (山東廣播電視大學) in July 1988. Between December 1980 and January 2003, Ms. Lv acted as a quality inspector, chief inspector and the deputy director of Linyi Cannery (臨沂罐頭廠). She has been accredited as the Expert of Canned Food Technology Committee of China National Food Industry Association (中國食品工業協會罐藏食品科技工作委員會專家委員) in August 2014. She has also been appointed as a committee member of Expert Committee of Focus Working Group on National Canned Food Safety and Inspection by Sampling and Risk Detection (國家罐頭類食品安全監督抽檢和風險檢測牽頭單位工作組專家委員會) since February 2015 for a term of three years.

Mr. Ho Ho Tung Armen (何浩東), aged 41, was appointed as our Chief Financial Officer and Company Secretary in February 2015. Prior to joining the Company, Mr. Ho was the chief financial officer of the Tuenbo Group Limited. Prior to that, he held various senior positions in Wisdom Asset Management Limited, Hermes Capital Limited and Evolution Group Limited (now known as Investec Group) specialized in asset management, private equity, and corporate finance. Mr. Ho also worked for PricewaterhouseCoopers Hong Kong, KPMG UK and Grant Thornton Corporate Finance UK from 1998 to 2006 specialising in audit, advisory and corporate finance.

Mr. Ho graduated from the University of Chicago Booth School of Business with a MBA degree. He also obtained a Bachelor of Arts (Honours) degree in accountancy from City University of Hong Kong and a Master of Science degree in financial economics from University of London. Mr. Ho is currently a member of the Hong Kong Institute of Certified Public Accountants.

Ms. Jiang Xiulan (姜秀蘭), aged 46, is our human resources manager and internal audit manager. She is responsible for overseeing matters relating to human resources and internal control of our Group. She joined our Group in January 2003 as a manager in the quality control department.

Ms. Jiang completed a course specialising in accounting and auditing in Heilongjiang Business School (黑龍江商學院) in July 1991. Between October 1992 and January 2003, she was the statistician, Chief of Enterprise Management of Linyi Cannery (臨沂罐頭廠).

Mr. Jiang Yubao (蔣余寶), aged 44, joined Tongtai of our Group in August 1995. He was then transferred to Shandong Tiantong in January 2003, being the trading manager and responsible for overseeing sales and import and export matters of our Group.

Mr. Jiang graduated from Linyi Business School of Shandong Province (山東省臨沂商業學校) in July 1995 studying accountancy and statistics. He joined our Group upon his graduation.

Independent Auditor's Report

羅兵咸永道

TO THE SHAREHOLDERS OF TIANYUN INTERNATIONAL HOLDINGS LIMITED
(incorporated in the British Virgin Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Tianyun International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 65 to 114, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

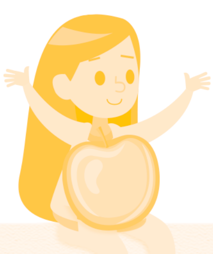
Independent Auditor's Report

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit relates to valuation of investment properties.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment properties *Refer to Note 15 to the consolidated financial statements* As at 31 December 2017, the Group's investment properties portfolio, amounted to RMB34,000,000, including part of the integrated building centre which was transferred from construction in progress to investment properties on 1 July 2017. The fair value gain on the Group's investment properties amounted to RMB4,500,000 for the year ended 31 December 2017. Management engaged an independent valuer to estimate the fair value of the Group's investment properties as at 1 July 2017, the transfer date, and 31 December 2017 based on the direct comparison method. The methodology and key assumptions used in the independent valuation of investment properties requires significant judgement and estimation. In addition, the balance of investment properties is significant. Therefore, we focused on this area in our audit.	Our audit procedures in relation to key assumptions used in the valuation of investment properties included: • Evaluating the independent valuer's competence, capabilities and objectivity; • Obtaining the valuation reports and holding meetings with the independent valuer, together with our own experts in property valuation, to discuss and evaluate the valuation methodology and key assumptions adopted, focusing on market comparables based on recent transacted prices of comparable properties, after adjustments for the differences in their locations and sizes; • Assessing the market comparables used by the independent valuer, on a sample basis, by benchmarking these against comparable market transactions for similar properties and locations. We found the methodology and key assumptions used in the valuation of investment properties were supported by the available evidence.



Independent Auditor's Report

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

- 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.

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

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

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

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

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

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

The engagement partner on the audit resulting in this independent auditor's report is Cecilia, Lai Ting Yau.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	*6*	**745,541**	653,474
Cost of sales	*7*	**(541,283)**	(454,102)
Gross profit		**204,258**	199,372
Other income	*6*	**780**	97
Other gains	*6*	**4,635**	–
Selling and distribution expenses	*7*	**(17,014)**	(13,201)
General and administrative expenses	*7*	**(28,479)**	(17,887)
Operating profit		**164,180**	168,381
Finance income		**744**	207
Finance costs		**(4,385)**	(2,230)
Finance costs – net	*9*	**(3,641)**	(2,023)
Profit before income tax		**160,539**	166,358
Income tax expense	*10*	**(37,258)**	(37,582)
Profit for the year attributable to equity holders of the Company		**123,281**	128,776
Other comprehensive income			
Item that may be reclassified to profit or loss:			
Revaluation gain arising from transfer of property, plant and equipment to investment properties		**303**	–
Other comprehensive income for the year, net of tax		**303**	–
Total comprehensive income for the year attributable to equity holders of the Company		**123,584**	128,776
Earnings per share for profit attributable to equity holders of the Company for the year (expressed in RMB cents)			
– Basic earnings per share	*11*	**12.61**	12.93
– Diluted earnings per share	*11*	**12.54**	12.93

The notes on pages 69 to 114 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	*13*	**56,976**	58,425
Property, plant and equipment	*14*	**199,694**	220,963
Prepayments	*19*	**54,855**	42,000
Investment properties	*15*	**34,000**	–
		345,525	321,388
Current assets			
Inventories	*17*	**75,727**	65,119
Trade and other receivables	*19*	**107,741**	85,190
Cash and cash equivalents	*20*	**309,167**	224,001
		492,635	374,310
Total assets		**838,160**	695,698
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	*21*	**232,459**	236,114
Reserves	*22*	**421,453**	330,046
Total equity		**653,912**	566,160
LIABILITIES			
Non-current liabilities			
Other borrowings	*26*	**–**	13,677
Total non-current liabilities		**–**	13,677
Current liabilities			
Trade payables	*24*	**25,178**	14,731
Accruals and other payables	*25*	**15,947**	16,800
Amount due to a related company	*31(b)*	**–**	5
Bank and other borrowings	*26*	**81,677**	83,516
Convertible bond	*27*	**59,535**	–
Current income tax liabilities		**1,911**	809
Total current liabilities		**184,248**	115,861
Total equity and liabilities		**838,160**	695,698

The notes on pages 69 to 114 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 65 to 114 were approved by the Board of Directors on 29 March 2018 and were signed on its behalf.

Mr. Yang Ziyuan
Director

Mr. Sun Xingyu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to equity holders of the Company						
	Share capital RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	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
Comprehensive income							
Profit for the year	–	–	–	–	–	128,776	128,776
Total comprehensive income for the year	–	–	–	–	–	128,776	128,776
Transaction with owners							
Transfers *(Note 22)*	–	–	–	20,000	–	(20,000)	–
Buy-back of shares *(Note 21)*	(11,943)	(2,194)	–	–	–	–	(14,137)
Dividends relating to 2015 paid	–	(25,437)	–	–	–	–	(25,437)
Dividends relating to 2016 paid *(Note 12)*	–	(13,819)	–	–	–	–	(13,819)
Employees share option scheme: – share-based compensation expenses *(Note 23)*	–	–	–	–	1,495	–	1,495
Total transactions with owners	(11,943)	(41,450)	–	20,000	1,495	(20,000)	(51,898)
Balance at 31 December 2016	236,114	43,213	(3,100)	22,500	2,318	265,115	566,160

For the year ended 31 December 2017

	Attributable to equity holders of the Company							
	Share Capital RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Revaluation reserve RMB'000	Statutory reserve RMB'000	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**
Comprehensive income								
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**123,281**	**123,281**
Other comprehensive income								
Revaluation gain arising from transfer of property, plant and equipment to investment properties	**–**	**–**	**–**	**303**	**–**	**–**	**–**	**303**
Total comprehensive income for the year	**–**	**–**	**–**	**303**	**–**	**–**	**123,281**	**123,584**
Transaction with owners								
Buy-back of shares *(Note 21)*	**(3,655)**	**2,194**	**–**	**–**	**–**	**–**	**–**	**(1,461)**
Dividends relating to 2016 paid *(Note 12)*	**–**	**(21,685)**	**–**	**–**	**–**	**–**	**–**	**(21,685)**
Dividends relating to 2017 paid *(Note 12)*	**–**	**(13,291)**	**–**	**–**	**–**	**–**	**–**	**(13,291)**
Employees share option scheme: – share-based compensation expenses *(Note 23)*	**–**	**–**	**–**	**–**	**–**	**605**	**–**	**605**
Total transactions with owners	**(3,655)**	**(32,782)**	**–**	**–**	**–**	**605**	**–**	**(35,832)**
Balance at 31 December 2017	**232,459**	**10,431**	**(3,100)**	**303**	**22,500**	**2,923**	**388,396**	**653,912**

The notes on pages 69 to 114 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from operations	*28(a)*	**151,292**	166,033
Interest paid		**(2,852)**	(2,230)
Income tax paid		**(36,156)**	(41,336)
Net cash generated from operating activities		**112,284**	122,467
Cash flows from investing activities			
Purchases of property, plant and equipment		**(21,186)**	(101,545)
Prepayments paid for business acquisition		**(12,855)**	–
Proceeds from disposals of property, plant and equipment	*28(b)*	**–**	77
Interest received		**744**	207
Net cash used in investing activities		**(33,297)**	(101,261)
Cash flows from financing activities			
Repayment to a related company		**(5)**	–
Proceeds from loans from a leasing company		**–**	40,000
Repayments of loans from a leasing company		**(15,516)**	(10,807)
Proceeds from bank borrowings		**68,000**	68,000
Repayments of bank borrowings		**(68,000)**	(68,000)
Proceeds from issuance of convertible bond		**59,670**	–
Transaction costs paid for issuance of convertible bond	*9*	**(1,533)**	–
Dividends paid to shareholders	*12*	**(34,976)**	(39,256)
Buy-back of shares	*21*	**(1,461)**	(14,137)
Net cash generated from/(used in) financing activities		**6,179**	(24,200)
Net increase/(decrease) in cash and cash equivalents		**85,166**	(2,994)
Cash and cash equivalents at beginning of year		**224,001**	226,995
Cash and cash equivalents at end of year	*20*	**309,167**	224,001

The notes on pages 69 to 114 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1 General information of the Group and Group organisation

1.1 General information

Tianyun International Holdings Limited (the "Company") and its subsidiaries (together "the Group") are principally engaged in the manufacturing and trading of processed fruit products and fresh fruits.

The Company is an investment holding company 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, P.O. Box 3140, Road Town, Tortola, British Virgin Islands, VG1110.

The Company has listed its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 July 2015.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been prepared under the historical cost convention as modified by the valuation of investment properties (Note 15) and convertible bond (Note 27), which are stated at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) Amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

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

The adoption of these amendments did not have any impact on the current year or any prior period.

The amendments to HKAS 7 require disclosure of change in liabilities arising from financing activities, see note 28(c).

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(b) New and amended standards that have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted

- Amendments to HKAS 28, "Investment in associates and joint ventures"[1]
- Amendments to HKAS 40, "Transfer of investment property"[1]
- Amendments to HKFRS 1, "First adoption of HKFRS"[1]
- Amendments to HKFRS 2, "Classification and measurement of share-based payment transactions"[1]
- Amendments to HKFRS 4, Insurance contract "[1]
- HKFRS 9, "Financial instruments"[1]
- Amendments to HKFRS 10 and HKAS 28, "Sale or contribution of assets between an investor and its associate or joint venture"[3]
- HKFRS 15, "Revenue from contracts with customers"[1]
- HKFRS 16, "Leases"[2]
- HK (IFRIC) 22, "Foreign currency transactions and advance consideration"[1]
- HK (IFRIC) 23, "Uncertainty over income tax treatments"[2]

[1] effective for annual period beginning on or after 1 January 2018

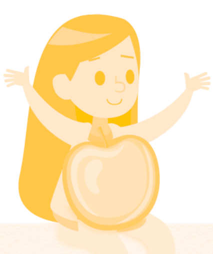
[2] effective for annual period beginning on or after 1 January 2019

[3] to be determined

(i) HKFRS 9 Financial instruments

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in fair value through other comprehensive income ("FVOCI"), provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in FVOCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in FVOCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(b) New and amended standards that have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted (continued)

(i) HKFRS 9 Financial instruments *(continued)*

Based on an analysis of the Group's financial instruments as at 31 December 2017, the directors do not expect the adoption of HKFRS 9 to have a significant impact on the classification, measurement and recognition of the Group's financial assets and financial liabilities.

HKFRS 9 also introduces a new model for the recognition of impairment losses – the expected credit losses ("ECL") model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a "three stage" approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL in recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

Based on the historical experience of the Group, the default rates of the outstanding balances with customers are low. Hence, the directors of the Company do not expect that the application of HKFRS 9 would result in a significant impact on the Group's impairment provisions.

HKFRS 9 must be applied for financial year commencing on or after 1 January 2018. The Group intends to apply the new rules retrospectively from 1 January 2018.

(ii) HKFRS 15 Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including HKAS 18, Revenue, HKAS 11, Construction contracts and HK(IFRIC)-Interpretation 13, Customer Loyalty Programmes. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgement and estimates.

The Group's revenue recognition policy is disclosed in Note 2.24. Currently, revenue arising from the sales of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised goods or services in the contract. HKFRS 15 identifies 3 situations in which control of the promised goods or services are regarded as being transferred over time:

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(b) New and amended standards that have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted (continued)

(ii) HKFRS 15 Revenue from contracts with customers *(continued)*

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an assets (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sales of that goods or services at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

HKFRS 15 must be applied for financial year commencing on or after 1 January 2018. Management has performed a preliminary assessment and expects that the application of HKFRS 15 would not result in any significant impact on the Group's financial position and results of operations based on the current business model.

(iii) HKFRS 16 Leases

HKFRS 16 "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on statement of financial position for lessees. The Group is a lessee of various properties which are currently classified as operating leases. Such leases of the Group are not reflected in the statement of financial position and only disclosed in the Group's future operating lease commitments set out in Note 30. As at 31 December 2017, the Group's future aggregate minimum lease payments under non-cancellable operating lease are RMB784,000.

HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the statement of financial position. Instead, almost all leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Company's statement of financial position. Short-terms leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation.

The new standard will therefore result in an increase in assets and financial liabilities in the statement of financial position. As for the financial performance impact in the statement of comprehensive income, the operating lease expenses will decrease, while depreciation and amortisation and the interest expense will increase. The new standard is not expected to apply until the financial year 2019.

The directors do not anticipate that the adoption of other new and revised HKFRSs will have material impact.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.2 Subsidiaries

2.2.1 Consolidation

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

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

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

2.2.2 Separate financial statements

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

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment

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

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

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

Leasehold improvements	Shorter of remaining period of the lease or useful lives
Building	20 years
Furniture and fixtures	5 years
Plant and machinery	10 years
Motor vehicles	5 years
Office and computer equipment	5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts, and are recognised within 'General and administrative expenses' in the statement of comprehensive income.

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all attributable costs of bringing the asset to working condition for its intended use. This includes direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs will cease and the construction in progress is transferred to appropriate categories within property, plant and equipment when the construction activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies of the Group, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and ceased once the asset is substantially complete, or suspended if the development of the asset is suspended.

After initial recognition, investment property is carried at fair value. Fair value is based on valuations carried out by professional valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of leasehold land, if any, classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is capitalised to the carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated statement of comprehensive income during the financial period in which they are incurred.

Changes in fair values of investment property are recognised in the consolidated statement of comprehensive income. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in the consolidated statement of comprehensive income to the extent that it reverses a previous impairment loss, with any remaining increase recognised directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is charged to the consolidated statement of comprehensive income. Upon the subsequent disposal of the investment property, any revaluation reserve balance of the property is transferred to retained profits and is shown as a movement in equity.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.7 Leasehold land and land use rights

All land in the People's Republic of China (the "PRC") is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as leasehold land and land use rights, which are amortised over the lease periods using the straight-line method. The leasehold land and land use rights are stated at historical cost less accumulated amortisation and impairment losses. When there is impairment, the impairment is expensed in the consolidated statement of comprehensive income.

2.8 Impairment of non-financial assets

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

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statements of financial position (Notes 2.13 and 2.14).

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.11 Impairment of financial assets

The Group assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2.12 Inventories

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

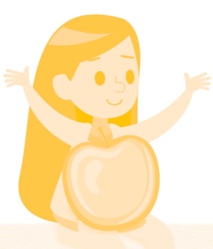
2.13 Trade and other receivables

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

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

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less.



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade and other payables

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

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

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bond that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The entire convertible bond is designated as financial liabilities at fair value through profit or loss. It is initially recognised at fair value and subsequently carried at fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.20 Current and deferred income tax

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

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

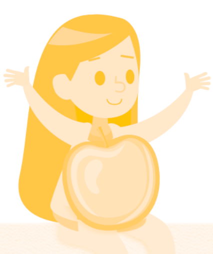
Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax liabilities are not recognised if they arise from the initial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

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

Outside basis differences

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

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



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.20 Current and deferred income tax *(continued)*

(c) *Offsetting*

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

2.21 Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) *Pension obligations*

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF"), a defined contribution plan. Under the MPF, each of the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK$1,500 per person per month and any excess contributions are voluntary.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the provincial governments.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) *Bonus plans*

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.22 Share-based payments

Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

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

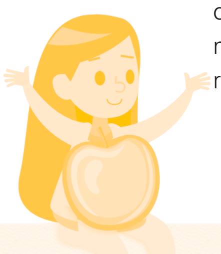
The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

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



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

2 Summary of significant accounting policies *(continued)*

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, net of rebates and discounts. Rebates and discounts granted to customers are classified as a reduction of revenue.

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

(a) Sales of goods

Sales of goods are recognised when the transfer of risks and rewards of ownership, which generally considers with the time when the goods are delivered to customers and title has passed.

(b) Interest income

Interest income is recognised as it accrues using the effective interest method;

(c) Rental income

The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2.25 Government grants

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

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

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

2.26 Leases

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

2.27 Dividend distribution

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments to hedge the risk exposures.

Financial risk management is carried out by the finance department under the supervision of the CEO and the board of directors of the Company. The CEO and the board of directors provides principles for overall risk management.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars ("USD") and Hong Kong dollars ("HK$"). Foreign exchange risk arises from future commercial transactions, recognised financial assets and liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2017, if RMB had strengthened/weakened by 5% against USD with all other variables held constant, the post-tax profit for the year would have been approximately RMB1,493,000 higher/lower (2016: RMB393,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of USD denominated trade receivables, cash and cash equivalents and convertible bond.

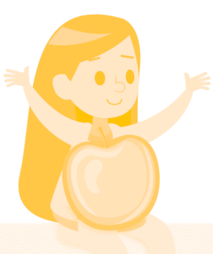
As at 31 December 2017, if RMB had strengthened/weakened by 5% against HK$ with all other variables held constant, the post-tax profit for the year would have been approximately RMB136,000 (2016: RMB3,226,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HK$ denominated cash and cash equivalents.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank balances at floating interest rates and bank and other borrowings. Bank borrowing obtained at variable rate exposes the Group to cash flow interest rate risk which is partially offset by bank balances held at variable rates. The Group's other borrowings and convertible bond at fixed rates expose the Group to fair value interest rate risk. During 2017 and 2016, the Group's bank and other borrowings were denominated in RMB, and its convertible bond is denominated in USD.

Details of the Group's bank and other borrowings and convertible bond are disclosed in Note 26 and Note 27 respectively. The cash deposits placed with banks generate interest at the prevailing market interest rates.

As at 31 December 2017, if interest rate on bank borrowing had been 50 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB177,000 (2016: RMB337,000) lower/higher, mainly as a result of higher/lower of interest expenses on variable rate bank borrowing.



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(b) *Credit risk*

Credit risk is managed on a group basis. The credit risk of the Group mainly arises from cash and cash equivalents and trade and other receivables. Management has policies in place to monitor the exposures to these credit risks on an on-going basis.

As at 31 December 2017 and 2016, cash and cash equivalents are all deposited with listed banks. The Group has not incurred significant loss from non-performance by these parties in the past and management does not expect so in the future.

As at 31 December 2017, top 3 customers of the Group accounted for approximately 28% (2016: 23%) to the trade receivables of the Group. The Group has set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these customers. Management makes periodic assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

The maximum exposure to credit risk is therefore represented by the carrying amount of each financial asset as stated in the consolidated and company statements of financial position.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position. The Group aims to maintain flexibility in funding by keeping sufficient bank balances and committed credit lines available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
At 31 December 2017			
Trade payables	**25,178**	**–**	**25,178**
Other payables	**7,478**	**–**	**7,478**
Convertible bond	**63,063**	**–**	**63,063**
Bank and other borrowings	**84,201**	**–**	**84,201**
	179,920	**–**	**179,920**
At 31 December 2016			
Trade payables	14,731	–	14,731
Other payables	7,614	–	7,614
Amount due to a related company	5	–	5
Bank and other borrowings	86,752	14,540	101,292
	109,102	14,540	123,642

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

3 Financial risk management *(continued)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debts divided by total equity. Total debts are calculated by aggregating the bank and other borrowings, convertible bond and the non-trade nature of amount due to a related company as at 31 December 2017 and 2016.

The gearing ratios were as follows:

	2017 **RMB'000**	**2016** **RMB'000**
Total debts	**141,212**	97,198
Total equity	**653,912**	566,160
Gearing ratio	**21.6%**	17.2%

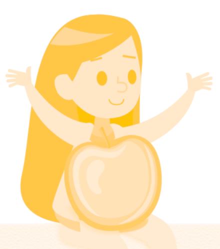
The increase in the gearing ratio during 2017 was resulted primarily from the fund raised from the convertible bond.

3.3 Fair value estimation

Financial instruments that are measured in the consolidated statement of financial position at fair value are disclosed by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Please refer to Note 15 for details of the investment properties measured at fair value.



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

3 Financial risk management *(continued)*

3.3 Fair value estimation *(continued)*

	Level 2	
Liability	**2017 RMB'000**	**2016 RMB'000**
Convertible bond	**59,535**	–

There were no transfers between levels 1, 2 and 3 during the year.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Please refer to Note 27 for details of the valuation of the convertible bond.

The fair values of the Group's trade and other receivables, cash and cash equivalents, trade and other payables, amount due to a related company and bank and other borrowings approximate their fair values due to their short maturities.

3.4 Offsetting financial assets and financial liabilities

The Group has no financial assets and financial liabilities, which is subject to offsetting, enforceable master netting arrangements and similar agreements.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Valuation of investment property

The fair value of each investment property is individually determined at each balance sheet date by independent valuers on a market value assessment. The fair value is based on the direct comparison method with reference to current sale prices in an active market for properties of similar nature, condition or location. In the absence of such information, the valuer determines the amount within a range of reasonable fair value estimates. In making its judgement, the valuer considers information from a variety of sources including current sale prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences.

Judgement is required to determine the principal valuation assumptions to determine the fair value of the investment properties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4 Critical accounting estimates and judgements *(continued)*

(a) Valuation of investment property *(continued)*

At 31 December 2017, if the market value of investment properties had been 10% higher/lower with all other variables held constant, the carrying value of the Group's investment properties would have been RMB3 million higher/lower and the Group's profit before tax would have been increased/decreased by RMB3 million.

(b) Useful lives and residual values of property, plant and equipment

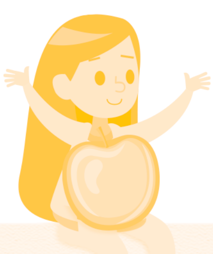
Management determines the estimated useful lives and residual values for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each statement of financial position date.

(d) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit 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 recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

5 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 CEO of the Company.

The chief operating decision-maker assesses the performance of the business based on a measure of profit after income tax and considers the business 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 trading of fresh fruits and processed fruit products, and segment information are not presented.

The Company is domiciled in the British Virgin Islands while the Group operates its business in the PRC. For the year ended 31 December 2017, the Group's revenue of RMB670,055,000 (2016: RMB596,701,000) was generated from domestic customers in the PRC paid in RMB, and the Group's revenue of RMB75,486,000 (2016: RMB56,773,000) was generated from direct overseas customers paid in foreign currencies. All non-current assets were located in the PRC.

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 which contribute over 5% of total revenue of the Group for any of the years ended 31 December 2017 and 2016 are as follows:

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Customer A *(Note)*	**54,989**	N/A
Customer B	**50,183**	50,294
Customer C	**34,782**	36,925
Customer D *(Note)*	**N/A**	34,666
Customer E *(Note)*	**N/A**	32,279
Customer F *(Note)*	**N/A**	30,222

Note:

The corresponding revenue did not contribute over 5% of total revenue of the Group for the respective year.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

6 Revenue, other income and other gains

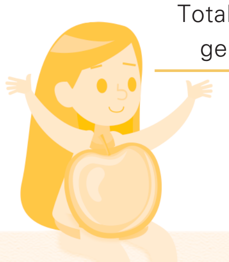
The Group is principally engaged in the manufacturing and trading of processed fruit products and fresh fruits.

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Revenue		
Domestic sales	**670,055**	596,701
Direct overseas sales	**75,486**	56,773
Total sale of goods	**745,541**	653,474
Other income		
Government subsidies	**405**	97
Rental income	**267**	–
Sundry income	**108**	–
Total other income	**780**	97
Other gains		
Re-measurement on convertible bond	**135**	–
Fair value gain on investment properties	**4,500**	–
Total other gains	**4,635**	–

7 Expenses by nature

Expenses included in 'cost of sales', 'selling and distribution expenses' and 'general and administrative expenses' are analysed as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Auditors' remuneration		
– Audit services	**1,839**	1,479
– Non-audit service	**279**	256
Cost of inventories sold	**503,164**	428,992
Depreciation of property, plant and equipment *(Note 14)*	**13,256**	9,475
Amortisation of leasehold land and land use rights *(Note 13)*	**1,449**	1,449
Employee benefit expenses (including directors' emoluments) *(Note 8)*	**30,004**	20,869
Legal and professional fees	**1,130**	2,226
Loss on disposals of property, plant and equipment *(Note 28(b))*	**2**	10
Operating lease payments	**371**	423
Land taxes, surcharges and other taxes	**9,243**	7,703
Transportation expenses	**6,097**	5,849
Foreign exchange losses/(gains), net	**2,363**	(9,164)
Others	**17,579**	15,623
Total cost of sales, selling and distribution expenses and general and administrative expenses	**586,776**	485,190



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

8 Employee benefit expenses (including directors' emoluments)

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Wages and salaries	**26,322**	16,437
Discretionary bonuses	**1,290**	1,156
Social security costs for the PRC employees	**1,732**	1,743
Defined contribution for Hong Kong employees – MPF	**55**	38
Share-based compensation expenses *(Note 23)*	**605**	1,495
	30,004	20,869

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 include two directors (2016: two) whose emoluments are reflected in the analysis shown in Note 33. The emoluments paid/payable to the remaining three (2016: three) individuals are as follows:

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Basic salaries, allowances and benefits in kind	**1,142**	933
Discretionary bonuses	**21**	20
Social security costs	**6**	10
Defined contribution – MPF	**36**	31
Share-based compensation expenses	**69**	230
	1,274	1,224

No emoluments were paid by the Group to these individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

The emoluments of the highest paid individuals fell within the following bands:

	Number of individuals	
	2017	**2016**
Emolument bands (in Hong Kong dollars ("HK$"))		
Nil to HK$1,000,000	**2**	2
HK$1,000,001 – HK$1,500,000	**1**	1

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

9 Finance costs – net

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Finance income		
– Interest income on short-term bank deposits	**744**	207
Finance costs		
– Interest expenses on the loans from a leasing company	**(1,710)**	(1,196)
– Interest expenses on bank borrowings	**(3,075)**	(3,172)
– Transaction costs for issuance of convertible bond	**(1,533)**	–
– Less: amounts capitalised on qualifying assets *(Note)*	**1,933**	2,138
	(4,385)	(2,230)
Finance costs – net	**(3,641)**	(2,023)

Note:

During the year, the Group has capitalised borrowing costs amounting to RMB1,933,000 (2016: RMB2,138,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.4% per annum (2016: 5.3% per annum).

10 Income tax expense

British Virgin Islands ("BVI") income tax

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

Hong Kong profits tax

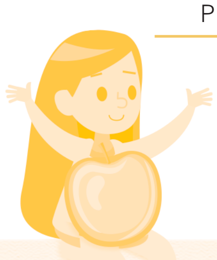
Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate at 16.5% for the years ended 31 December 2017 and 2016 on the estimated assessable profit for the years. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the years.

PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% of the profits for the PRC statutory financial reporting purpose for the years ended 31 December 2017 and 2016, 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 income tax expense of the Group for the years is analysed as follows:

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Current income tax:		
PRC corporate income tax	**37,258**	37,582



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

10 Income tax expense *(continued)*

PRC corporate income tax *(continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the domestic tax rate applicable to profits of the Group's subsidiaries as follows:

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Profit before income tax	**160,539**	166,358
Tax calculated at domestic tax rates applicable to profits in the respective countries	**41,469**	41,198
Income not subject to tax	**(5,559)**	(5,054)
Expenses not deductible for tax purposes	**1,348**	1,438
	37,258	37,582

11 Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the years.

	Year ended 31 December	
	2017	**2016**
Profit attributable to equity holders of the Company (RMB$'000)	**123,281**	128,776
Weighted average number of ordinary shares in issue (thousand)	**977,556**	996,266
Basic earnings per share (RMB cents)	**12.61**	12.93

(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. The Company has two categories of dilutive potential ordinary shares: convertible bond and share options. The convertible bond is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the fair value changes less the tax effect. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

11 Earnings per share *(continued)*

(b) Diluted *(continued)*

The calculation of diluted earnings per share for the year is based on the following:

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Profit attributable to shareholders of the Company for calculation of basic earnings per share	**123,281**	128,776
Effect of dilutive potential shares:		
Convertible bond assumed to be converted at the date of issuance	**(135)**	–
Profit for calculation of diluted earnings per share	**123,146**	128,776

	Number of shares	
	2017	**2016**
Weighted average number of shares for calculation of basic earnings per share	**977,556**	996,266
Effect of dilutive potential shares:		
Convertible bond assumed to be converted at the date of issuance	**4,233**	–
Share options of the Company assumed to be exercised	**399**	–
Weighted average number of shares for calculation of diluted earnings per share	**982,188**	996,266
Diluted earnings per share (RMB cents)	**12.54**	12.93

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

12 Dividends

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Final dividend paid during the year:		
2016 final dividend HK$0.025 per ordinary share	**21,685**	–
Interim dividend declared and paid during the year:		
2017 interim dividend of HK$0.016 per ordinary share (2016: HK$0.016 per ordinary share)	**13,291**	13,819
Final dividend declared after the year end:		
2017 final dividend of HK$0.026 per ordinary share (2016: HK$0.025 per ordinary share)	**20,422**	21,626

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. On 29 March 2018, the board of directors proposed a final dividend of in respect of the year ended 31 December 2017 of approximately RMB20.4 million (2016: RMB21.6 million), representing HK$0.026 per ordinary share (2016: HK$0.025 per ordinary share). Such dividend is to be approved by the shareholders at the Annual General Meeting of the Company. This proposed final dividend is not reflected as a dividend payable as of 31 December 2017, but will be recorded as a distribution of reserve for the year ending 31 December 2018.

13 Leasehold land and land use rights

The Group's interests in leasehold land and land use rights represent the prepaid operating lease payments and their net book values are analysed as follows:

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
At 1 January	**58,425**	59,874
Amortisation *(Note 7)*	**(1,449)**	(1,449)
At 31 December	**56,976**	58,425

Amortisation of leasehold land and land use rights of RMB1,159,000 (2016: RMB1,159,000) have been included in 'cost of sales' and RMB290,000 (2016: RMB290,000) have been charged in 'general and administrative expenses' for the year ended 31 December 2017.

As at 31 December 2017 and 2016, the Group's leasehold land and land use rights were pledged to secure bank borrowing granted to the Group (Note 26).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

14 Property, plant and equipment

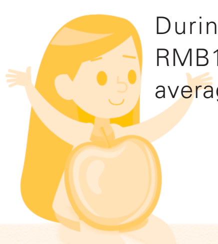
	Buildings RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office and computer equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016								
Cost	19,402	45,427	126	26,828	3,863	3,966	51,335	150,957
Accumulated depreciation	(461)	(10,991)	(62)	(8,965)	(1,503)	(2,040)	–	(24,022)
Net book amount	18,941	34,436	64	17,863	2,360	1,926	51,335	126,925
Year ended 31 December 2016								
Opening net book amount	18,941	34,436	64	17,863	2,360	1,926	51,335	126,925
Additions	–	3,705	112	17,008	1,299	818	80,658	103,600
Transfer	34,079	8,916	–	16,827	–	500	(60,322)	–
Disposals *(Note 28(b))*	–	–	–	–	(87)	–	–	(87)
Depreciation *(Note 7)*	(1,807)	(2,436)	(29)	(4,277)	(419)	(507)	–	(9,475)
Closing net book amount	51,213	44,621	147	47,421	3,153	2,737	71,671	220,963
At 31 December 2016								
Cost	53,481	58,046	239	60,663	4,590	5,285	71,671	253,975
Accumulated depreciation	(2,268)	(13,425)	(92)	(13,242)	(1,437)	(2,548)	–	(33,012)
Net book amount	51,213	44,621	147	47,421	3,153	2,737	71,671	220,963
Year ended 31 December 2017								
Opening net book amount	**51,213**	**44,621**	**147**	**47,421**	**3,153**	**2,737**	**71,671**	**220,963**
Additions	**8,184**	**7,500**	**–**	**–**	**387**	**749**	**4,366**	**21,186**
Transfer	**33,411**	**8,425**	**–**	**3,334**	**–**	**–**	**(74,367)**	**(29,197)**
Disposals *(Note 28(b))*	**–**	**–**	**–**	**–**	**–**	**(2)**	**–**	**(2)**
Depreciation *(Note 7)*	**(3,528)**	**(2,813)**	**(32)**	**(5,727)**	**(445)**	**(711)**	**–**	**(13,256)**
Closing net book amount	**89,280**	**57,733**	**115**	**45,028**	**3,095**	**2,773**	**1,670**	**199,694**
At 31 December 2017								
Cost	**95,076**	**73,971**	**238**	**63,997**	**4,978**	**6,000**	**1,670**	**245,930**
Accumulated depreciation	**(5,796)**	**(16,238)**	**(123)**	**(18,969)**	**(1,883)**	**(3,227)**	**–**	**(46,236)**
Net book amount	**89,280**	**57,733**	**115**	**45,028**	**3,095**	**2,773**	**1,670**	**199,694**

Depreciation of RMB7,816,000 (2016: RMB6,223,000) has been charged in 'cost of sales' and RMB5,440,000 (2016: RMB3,252,000) has been charged in 'general and administrative expenses' for the year ended 31 December 2017, respectively.

As at 31 December 2017, the net book value of buildings of RMB17,655,000 (2016: RMB18,605,000) and plant and machinery, office and computer equipment and furniture and fixtures of RMB24,790,000 (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 26).

Construction in progress as at 31 December 2016 mainly comprises the new integrated development centre, plants and production lines being constructed in the PRC. On 1 July 2017, such balance of construction in progress was transferred to building, leasehold improvements, plant and machinery, and investment properties (Note 15).

During the year ended 31 December 2017, the Group has capitalised borrowing costs amounting to RMB1,933,000 (2016: RMB2,138,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.4% per annum (2016: 5.3% per annum).



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

15 Investment properties

	As at 31 December 2017 RMB'000
Opening balance at 1 January	–
Transfer from property, plant and equipment	**29,500**
Fair value change	**4,500**
	34,000

Amounts recognised in profit or loss for investment properties	Year ended 31 December 2017 RMB'000
Rental income	**267**
Fair value gain recognised	**4,500**

Principal investment properties

Location	Approximate gross floor area (square meter)	Category of the lease term
Northside of Fenghuang Main Street, Westside of Wenquan Road, Linyi City, Shandong Province, the PRC	5,733	Land use rights for a term expired 18 April 2057

All of the fair value measurements of the Group's investment properties were categorised into level 3 of the fair value hierarchy.

Valuation process of the Group

The Group's investment properties were valued by an independent professional valuer, Roma Appraisals Limited who hold recognised relevant professional qualifications and have recent experience in the locations and segments of the investment properties valued, on an open market value basis as at 31 December 2017 and 1 July 2017, the transfer day of the property, plant and equipment to investment property. For all investment properties, their current use equates to the highest and best use.

Fair value of investment properties is generally derived using the direct comparison method. Direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration. There were no change to the valuation techniques during the year.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

15 Investment properties *(continued)*

Information about fair value measurements using significant unobservable inputs

	Valuation techniques	Unobservable inputs	Range of Unobservable inputs
Retail – Ground floor	Direct comparison	Adjusted market price (RMB/square meter)	5,500-7,000
Retail – others	Direct comparison	Adjusted market price (RMB/square meter)	4,000-5,500

16 Subsidiaries

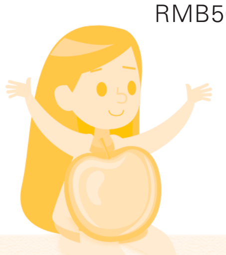
The following is a list of the principal subsidiaries as at 31 December 2017:

Name	Place of incorporation/ establishment and kind of legal entity	Nature of business and place of operation	Particulars of issued/registered share capital	Effective equity interest held
Directly held by the Company				
Tianyi Holding Hong Kong Ltd.	Hong Kong	Investment holding in Hong Kong	100 ordinary shares of HK$100	100%
Indirectly held by the Company				
臨沂同泰食品機械製造有限公司 (Linyi Tongtai Food Machine Manufacture Co., Ltd.)	The PRC, limited liability company	Manufacturing and trading of food machinery in the PRC	Registered and paid-in capital of USD31,500,000	100%
山東天同食品有限公司 (Shandong Tiantong Food Co., Ltd.)	The PRC, limited liability company	Manufacturing and sales of processed fruit products and trading of fresh fruits in the PRC	Registered and paid-in capital of RMB45,000,000	100%

17 Inventories

	As at 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Raw materials	**12,123**	5,998
Work in progress	**11,380**	10,780
Finished goods	**52,224**	48,341
	75,727	65,119

The cost of inventories sold recognised as expense and included in 'cost of sales' amounted to RMB503,164,000 (2016: RMB428,992,000) for the year ended 31 December 2017.



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

18 Financial instruments by category

	As at 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Assets as per consolidated statement of financial position		
– Trade receivables	**99,745**	82,663
– Other receivables (excluding prepayments)	**3,454**	1,584
– Cash and cash equivalents	**309,167**	224,001
Liabilities as per consolidated statement of financial position		
– Trade payables	**25,178**	14,731
– Other payables	**7,478**	7,614
– Amount due to a related company	**–**	5
– Bank and other borrowings	**81,677**	97,193
– Convertible bond	**59,535**	–

19 Trade and other receivables

		As at 31 December	
		2017	**2016**
		RMB'000	**RMB'000**
Trade receivables	(a)	**99,745**	82,663
Prepayments	(b)	**59,397**	42,943
Other receivables	(b)	**3,454**	1,584
		162,596	127,190
Less: non-current portion:			
Prepayments for land use rights		**(42,000)**	(42,000)
Prepayments paid for business acquisition		**(12,855)**	–
Current portion		**107,741**	85,190

(a) Trade receivables

The Group's credit terms granted to wholesale customers generally ranged from 30 to 120 days.

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

	As at 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Less than 30 days	**58,300**	55,431
31 to 60 days	**39,279**	26,499
61 to 90 days	**2,166**	733
	99,745	82,663

As at 31 December 2017, trade receivables of RMB645,000 were past due but not yet impaired (2016: RMB733,000). These relate to a number of independent customers for whom there is no recent history of default and based on past experience, the overdue amounts can be recovered.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

19 Trade and other receivables *(continued)*

(a) Trade receivables *(continued)*

The ageing analysis of these trade receivables based on due date is as follows:

	As at 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Overdue		
Less than 30 days	**200**	733
31 to 60 days	**327**	–
91 to 120 days	**118**	–

The trade receivables are denominated in the following currencies:

	As at 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
RMB	**90,054**	75,457
USD	**9,691**	7,206
	99,745	82,663

The carrying values of trade receivables approximate their fair value. The Group does not hold any collateral as security.

(b) Prepayments and other receivables

The carrying amounts of prepayments and other receivables approximate their fair values. Other than prepayment of RMB12,855,000 which are dominated in HK$, the prepayment and other receivables are mainly denominated in RMB. Other receivables do not contain impaired assets.

20 Cash and cash equivalents

	As at 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Cash at banks and on hand	**309,167**	224,001

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
RMB	**284,791**	159,962
HK$	**4,395**	63,363
USD	**19,981**	676
	309,167	224,001

RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business in the PRC.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

21 Share capital

Authorised ordinary share

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 share

	Number of ordinary share	Share capital HK$'000	Equivalent share capital RMB'000
As at 1 January 2015	100	1	1
At 31 December 2015 and 1 January 2016	1,000,000,000	310,072	248,057
Buy-back of shares *(Note)*	(17,000,000)	(13,763)	(11,943)
As at 31 December 2016 and 1 January 2017	**983,000,000**	**296,309**	**236,114**
Buy-back of shares *(Note)*	**(5,538,000)**	**(4,098)**	**(3,655)**
As at 31 December 2017	**977,462,000**	**292,211**	**232,459**

Note:

Buy-back of shares

During the year ended 31 December 2016, the Company repurchased 20,424,000 of its own ordinary shares on the Stock Exchange at a weighted average price of approximately RMB0.69 per share, for a total consideration of approximately RMB14,137,000. 17,000,000 ordinary shares were cancelled during the year and the consideration of RMB11,943,000 was deducted in share capital. The remaining 3,424,000 ordinary shares had not been cancelled as at 31 December 2016 and the consideration of RMB2,194,000 was deducted in capital reserve within shareholder's equity, which were transferred to share capital upon the subsequent cancellation of these shares in January 2017.

During the year ended 31 December 2017, the Company further repurchased and cancelled 2,114,000 of its own ordinary shares at a weighted average price of approximately RMB0.69 per share, for a total consideration of approximately RMB1,461,000. As a result, 5,538,000 ordinary shares were cancelled and their total consideration of RMB3,655,000 was deducted in share capital during the year ended 31 December 2017.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

22 Reserves

	Capital reserve RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000 *(Note)*	Revaluation reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total Reserves RMB'000
Balance at 1 January 2016	84,663	(3,100)	2,500	–	823	156,339	241,225
Profit for the year	–	–	–	–	–	128,776	128,776
Transfers	–	–	20,000	–	–	(20,000)	–
Share-based compensation expenses	–	–	–	–	1,495	–	1,495
Dividends paid	(39,256)	–	–	–	–	–	(39,256)
Buy-back of shares *(Note 21)*	(2,194)	–	–	–	–	–	(2,194)
Balance at 31 December 2016	43,213	(3,100)	22,500	–	2,318	265,115	330,046
Balance at 1 January 2017	**43,213**	**(3,100)**	**22,500**	**–**	**2,318**	**265,115**	**330,046**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**123,281**	**123,281**
Revaluation gain arising from transfer of property, plant and equipment to investment properties	**–**	**–**	**–**	**303**	**–**	**–**	**303**
Share-based compensation expenses	**–**	**–**	**–**	**–**	**605**	**–**	**605**
Dividends paid *(Note 12)*	**(34,976)**	**–**	**–**	**–**	**–**	**–**	**(34,976)**
Cancellation of repurchased shares *(Note 21)*	**2,194**	**–**	**–**	**–**	**–**	**–**	**2,194**
Balance at 31 December 2017	**10,431**	**(3,100)**	**22,500**	**303**	**2,923**	**388,396**	**421,453**

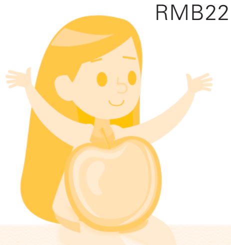
Note:

Statutory reserve

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 for 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 during the years represents the statutory surplus reserve of the PRC subsidiaries amounting to RMB22,500,000 (2016: RMB22,500,000).



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

23 Share-based payment

A share option scheme ("Share Option Scheme") was approved on 16 June 2015 by the shareholders of the Company. Share options are granted to selected employees. The options have a contractual option term of three years. The Company does not have a legal or constructive obligation to repurchase or settle the options in cash.

On 6 October 2015, options of 6,000,000 shares were conditionally granted under the Share Option Scheme and the exercisable period is from 1 January 2016 (five months following the listing date of the Company) to 31 December 2020.

On 21 April 2016, options of 7,700,000 shares were conditionally granted under the Share Option Scheme and the exercisable period is from 1 January 2017 to 31 December 2021.

(a) The following table discloses details of the Company's share options held by employees and movements in such holdings for the year ended 31 December 2017:

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Number of option (thousands)
6 October 2015	1.7	6 October 2015 – 31 December 2015	1 January 2016 – 31 December 2018	3,000
6 October 2015	1.7	6 October 2015 – 31 December 2016	1 January 2017 – 31 December 2019	1,500
6 October 2015	1.7	6 October 2015 – 31 December 2017	1 January 2018 – 31 December 2020	1,500
21 April 2016	0.97	21 April 2016 – 31 December 2016	1 January 2017 – 31 December 2019	3,850
21 April 2016	0.97	21 April 2016 – 31 December 2017	1 January 2018 – 31 December 2020	1,925
21 April 2016	0.97	21 April 2016 – 31 December 2018	1 January 2019 – 31 December 2021	1,925
				13,700

(b) Movements in the number of share options of the Share Option Scheme outstanding and the average exercise prices are as follows:

	2017		2016	
	Average exercise price in HK$ per share option	Number of shares (thousands)	Average exercise price in HK$ per share option	Number of shares (thousands)
At 1 January	**1.29**	**13,700**	1.7	6,000
Granted	**–**	**–**	0.97	7,700
At 31 December	**1.29**	**13,700**	1.29	13,700

The fair values were calculated using the Binomial Option Pricing model at the date of grant.

For the year ended 31 December 2017, the total expenses for share options granted to employees amount to RMB605,000 (2016: RMB1,495,000) had been recognised as and included in "employee benefit expenses" in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

24 Trade payables

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade payables	**25,178**	14,731

As at end of the reporting period, the ageing analysis of the trade payables based on invoice date were as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Less than 30 days	**20,995**	11,184
31 to 90 days	**1,947**	2,701
91 to 180 days	**1,653**	724
181 to 365 days	**528**	122
Over 365 days	**55**	–
	25,178	14,731

The carrying amounts of trade payables approximate their fair values and are denominated in RMB.

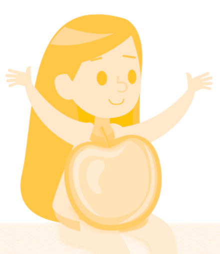
25 Accruals and other payables

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Accrued employee benefit expenses	**3,784**	4,286
Land taxes, surcharges and other taxes payables	**4,685**	4,900
Other payables for purchases of property, plant and equipment	**2,398**	2,762
Others	**5,080**	4,852
	15,947	16,800

The carrying amounts of accruals and other payables are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**14,108**	15,644
HK$	**1,839**	1,156
	15,947	16,800

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



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

26 Bank and other borrowings

	As at 31 December 2017			As at 31 December 2016		
	Current portion RMB'000	Non-current portion RMB'000	Total RMB'000	Current portion RMB'000	Non-current portion RMB'000	Total RMB'000
Bank borrowing	**68,000**	**–**	**68,000**	68,000	–	68,000
Loans from a leasing company	**13,677**	**–**	**13,677**	15,516	13,677	29,193
	81,677	**–**	**81,677**	83,516	13,677	97,193

The carrying amounts of accruals and other payables approximate their fair value:

	2017			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**	**13,677**	**81,677**	68,000	15,516	83,516
Between 1 and 2 years	**–**	**–**	**–**	–	13,677	13,677
	68,000	**13,677**	**81,677**	68,000	29,193	97,193

(a) The carrying amounts of bank and other borrowings approximate their fair values and are denominated in RMB. The weighted effective interest rates of bank and other borrowings were 5.4% per annum during the year (2016: 5.3% per annum).

(b) During the year ended 31 December 2016, the Group entered into two sales and leaseback agreements with a leasing company for certain assets, which included plant and machinery, office and computer equipment and furniture and fixtures ("Secured Assets"), amounted to RMB40,000,000. The arrangements were for a period of 3 years. Upon maturity, the Group will be entitled to purchase the Secured Assets in minimal consideration. The Group considered that it was almost certain that it would exercise this repurchase option. As substantial risks and rewards of the Secured Assets were retained by the Group before and after these arrangements, the transactions were regarded as secured borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

27 Convertible bond

	RMB'000
As at 1 January 2017	–
Fair value of convertible bond issued	**59,670**
Re-measurement on convertible bond:	
Exchange difference	**(863)**
Fair value loss	**728**
As at 31 December 2017	**59,535**

During the year, the Group issued a convertible bond with principal value of USD9,000,000 (equivalent to approximately RMB59,670,000) with interest of 6% per annum. The bond matures one year from the date of issue of bond at their principal value or can be converted into ordinary shares at the holder's option at rate HK$1.58 per conversion share. The maximum number of ordinary shares to be converted to 44,145,569 shares and none of them was converted up to 31 December 2017.

The entire convertible bond is designated as a financial liability through profit or loss and classified as current liability as at 31 December 2017.

The Group's convertible bond is valued by an independent professional valuer, Roma Appraisals Limited, by using binomial model with the following key assumptions:

	On inception date	As at 31 December 2017
Discount rate	**9.21%**	**9.29%**
Volatility	**38.78%**	**40.51%**
Dividend yield	**5.22%**	**5.22%**

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

28 Notes to the consolidated statement of cash flows

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Profit before income tax	**160,539**	166,358
Adjustments for:		
Interest income *(Note 9)*	**(744)**	(207)
Interest expenses *(Note 9)*	**2,852**	2,230
Transaction costs for issuance of convertible bond *(Note 9)*	**1,533**	–
Loss on disposals of property, plant and equipment *(Note 7)*	**2**	10
Depreciation of property, plant and equipment *(Note 7)*	**13,256**	9,475
Amortisation of land and land use rights *(Note 7)*	**1,449**	1,449
Share-based compensation expenses *(Note 8)*	**605**	1,495
Fair value gain on investment properties *(Note 6)*	**(4,500)**	–
Re-measurement on convertible bond *(Note 6)*	**(135)**	–
	174,857	180,810
Changes in working capital:		
Increase in inventories	**(10,608)**	(8,899)
Increase in trade receivables	**(17,082)**	(13,098)
Increase in prepayments and other receivables	**(5,469)**	(1,056)
Increase in trade payables	**10,447**	5,556
(Decrease)/increase in accruals and other payables	**(853)**	2,720
Cash generated from operations	**151,292**	166,033

(b) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Net book amount *(Note 14)*	**2**	87
Loss on disposals of property, plant and equipment *(Note 7)*	**(2)**	(10)
Proceeds from disposals of property, plant and equipment	**–**	77

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

28 Notes to the consolidated statement of cash flows *(continued)*

(c) Net debt reconciliation

This section sets out the movements in net debt for the year.

	Amount due to a related company RMB'000	Other Borrowing payable after one year RMB'000	Bank and other borrowings payable within one year RMB'000	Convertible bond RMB'000	Total RMB'000
At 1 January 2017	5	13,677	83,516	–	97,198
Financing cash flows	(5)	–	(15,516)	–	(15,521)
Issuance of convertible bond	–	–	–	59,670	59,670
Foreign exchange	–	–	–	(863)	(863)
Fair value loss	–	–	–	728	728
Other non-cash movements	–	(13,677)	13,677	–	–
	–	–	81,677	59,535	141,212

29 Contingencies

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

30 Commitments

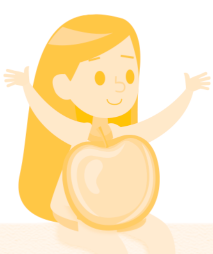
(i) Operating lease commitments

(a) As lessor

The Group leases its investment properties (Note 15) under operating lease arrangements with leases generally negotiated for terms ranging from three to five years. The terms of the leases generally also require the tenants to pay security deposits and may provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2017, the Group had total future minimum lease receivables under noncancellable operating leases with its tenants falling due as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Not later than 1 year	611	–
Later than 1 year and no later than 5 years	1,238	–
	1,849	–



Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

30 Commitments *(continued)*

(i) Operating lease commitments *(continued)*

(b) As lessee

The Group leases offices under operating lease agreements. The lease terms are 2 years. The future aggregate minimum lease payments under the operating lease agreement are as follows:

	As at 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Not later than 1 year	**432**	288
Later than 1 year and no later than 5 years	**352**	–
	784	288

(ii) Capital commitments

Capital expenditure contracted for but not yet incurred and provided for as of 31 December 2017 amounted to RMB17,396,000 (2016: RMB18,372,000).

31 Related party balances and transactions

For the purposes of the consolidated financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

31 Related party balances and transactions *(continued)*

(a) The directors are of the view that the following companies were related parties that had balances with the Group during the years ended 31 December 2017 and 2016:

Name of the related parties	Principal business activities	Relationship with the Group
Tiantong Fruit Co., Ltd.	Investment holding in Cayman Islands	Under common control by the ultimate controlling shareholder

(b) Balance with a related party

The Group had the following material non-trade balances with a related party:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Amount due to a related company		
– Tiantong Fruit Co., Ltd.	**–**	5

As at 31 December 2017 and 2016, amount due to a related company was unsecured, interest-free and repayable on demand. The carrying amount of amount due to a related company approximated its fair value and is denominated in RMB.

(c) 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:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Basic salaries, allowances and benefits in kind	**2,125**	1,895
Social security costs	**50**	50
Defined contribution – MPF	**36**	31
Share-based compensation expenses	**76**	253
	2,287	2,229

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

32 Statement of financial position and reserve movement of the Company

Statement of financial position of the Company

		As at 31 December	
		2017	2016
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Investment in a subsidiary		**–**	–
Amount due from a subsidiary		**313,539**	251,829
		313,539	251,829
Current assets			
Cash and cash equivalents		**1,780**	43,485
		1,780	43,485
Total assets		**315,319**	295,314
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		**232,459**	236,114
Reserves	*Note (a)*	**21,486**	58,040
Total equity		**253,945**	294,154
LIABILITIES			
Current liabilities			
Accruals and other payables		**1,839**	1,155
Amount due to a related company		**–**	5
Convertible bond		**59,535**	–
Total current liabilities		**61,374**	1,160
Total equity and liabilities		**315,319**	295,314

The statement of financial position of the Company was approved by the Board of Directors on 29 March 2018 and was signed on its behalf.

Mr. Yang Ziyuan
Director

Mr. Sun Xingyu
Director

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

32 Statement of financial position and reserve movement of the Company *(continued)*

(a) Reserve movement of the Company

	Capital reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2016	84,663	823	9,225	94,711
Profit for the year	–	–	3,284	3,284
Buy-back of shares	(2,194)	–	–	(2,194)
Dividends relating to 2015 paid	(25,437)	–	–	(25,437)
Dividends relating to 2016 paid	(13,819)	–	–	(13,819)
Employees share option scheme:				
– share-based compensation expenses	–	1,495	–	1,495
At 31 December 2016	43,213	2,318	12,509	58,040
At 1 January 2017	**43,213**	**2,318**	**12,509**	**58,040**
Loss for the year	**–**	**–**	**(4,377)**	**(4,377)**
Cancellation of repurchased shares	**2,194**	**–**	**–**	**2,194**
Dividends relating to 2016 paid	**(21,685)**	**–**	**–**	**(21,685)**
Dividends relating to 2017 paid	**(13,291)**	**–**	**–**	**(13,291)**
Employees share option scheme:				
– share-based compensation expenses	**–**	**605**	**–**	**605**
At 31 December 2017	**10,431**	**2,923**	**8,132**	**21,486**

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

33 Benefits and interests of directors

(a) Directors' and chief executive's emoluments

The remuneration of every directors and the chief executive is set out below:

For the year ended 31 December 2017:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:								
Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors									
Mr. Yang Ziyuan	125	72	12	-	-	26	-	-	235
Mr. Sun Xingyu	125	59	11	-	-	21	-	-	216
Non-executive directors									
Ms. Chu Yinghong	125	-	-	-	-	-	-	-	125
Mr. Wong Yim Pan	125	-	-	-	-	-	-	-	125
Independent and non-executive directors									
Mr. Liang Zhongkang	125	-	-	-	-	-	-	-	125
Mr. Tsang Yuen Wai	125	-	-	-	-	-	-	-	125
Ms. Hui Yung Yung	125	-	-	-	-	-	-	-	125

For the year ended 31 December 2016:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:								
Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors									
Mr. Yang Ziyuan	123	69	11	-	-	26	-	-	229
Mr. Sun Xingyu	123	57	10	-	-	22	-	-	212
Non-executive directors									
Ms. Chu Yinghong	123	-	-	-	-	-	-	-	123
Mr. Wong Yim Pan	123	-	-	-	-	-	-	-	123
Independent and non-executive directors									
Mr. Liang Zhongkang	123	-	-	-	-	-	-	-	123
Mr. Tsang Yuen Wai	123	-	-	-	-	-	-	-	123
Ms. Hui Yung Yung	123	-	-	-	-	-	-	-	123

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

33 Benefits and interests of directors *(continued)*

(a) Directors' and chief executive's emoluments *(continued)*

There was no arrangement during the years ended 31 December 2017 and 2016 under which a director waived or agreed to waive any remuneration, and no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

(b) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2016: nil)

(c) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the year (2016: nil).

(d) Consideration provided to third parties for making available directors' services

No payment was made to the former employer of directors for making available the services of them as a director of the Company (2016: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

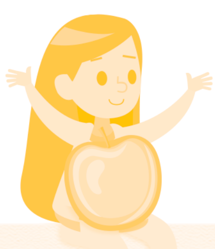
There were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2016: nil).

34 Events occurring after the reporting period

(a) On 22 January 2018, the Group entered into a subscription agreement with Guotai Junan Finance (Hong Kong) Limited and Guotai Junan Securities (Hong Kong) Limited to issue a 364 days convertible bond in aggregate principal amount of USD4,000,000. The issuance date of the convertible bond is 22 January 2018.

(b) On 30 January 2018, the Group entered into a strategic cooperation transaction documents with Tai Wei Beverage Joint Stock Company Limited and Tai Wei Beverage (Guangzhou) Co. Ltd., which authorises the Group to manufacture and distribute a series of the products in the PRC for a period of 10 years commencing from 30 January 2018. The total contract amount is RMB162 million.

(c) On 31 January 2018, Tianyun International Holdings Limited acquired 100% of the issued shares in Tiantong Foods (Yichang) Limited, a company based in Dangyang City, Yichang, Hubei Province, the PRC and is principally engaged in the production and sales of processed fruit products, for a consideration of HK$55,000,000.



Five-Year Financial Summary

A summary of the results and of the assets, equity and liabilities of the Group for the last five financial years is as follows.

RESULTS

	Year ended 31 December				
	2017	**2016**	**2015**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Revenue	**745,541**	653,474	553,618	447,678	370,493
Profit before tax	**160,539**	166,358	129,017	113,517	90,006
Income tax expense	**(37,258)**	(37,582)	(32,100)	(24,206)	(19,106)
Profit for the year	**123,281**	128,776	96,917	89,311	70,900

ASSETS AND LIABILITIES

	As at 31 December				
	2017	**2016**	**2015**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Assets					
Non-current assets	**345,525**	321,388	232,314	72,514	39,485
Current assets	**492,635**	374,310	354,251	122,301	84,701
Total assets	**838,160**	695,698	586,565	194,815	124,186
Equity and liabilities					
Total equity	**653,912**	566,160	489,282	118,330	39,512
Non-current liabilities	**–**	13,677	–	–	–
Current liabilities	**184,248**	115,861	97,283	76,485	84,674
Total liabilities	**184,248**	129,538	97,283	76,485	84,674
Total equity and liabilities	**838,160**	695,698	586,565	194,815	124,186

Note:

The summary of the consolidated results of the Group for each of the two years ended 31 December 2013 and 2014 and of the assets, equity and liabilities as at 31 December 2013 and 2014 have been extracted from the Prospectus.

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

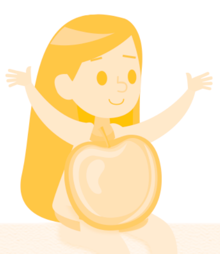
Mr. Liang Zhongkang *(Chairman)*
Mr. Yang Ziyuan
Mr. Tsang Yuen Wai
Ms. Hui Yung Yung Janet

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
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Linyi City, Shandong Province
The PRC

Principal Share Registrar and Transfer Office and Registered Office in the BVI

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P.O. Box 3140, Road Town
Tortola
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VG1110

Principal Place of Business in Hong Kong

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Branch Share Registrar and Transfer Office in Hong Kong

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Legal Adviser as to Hong Kong Law

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Legal Adviser as to PRC Law

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Chaoyang District
Beijing 100025
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Principal Bankers

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China Limited
Bank of China Limited
Agricultural Bank of China Limited
Linshang Bank Co., Limited

Auditor

PricewaterhouseCoopers
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Company's Website

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Enquiries

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Stock Code

6836