



CHINA PUTIAN FOOD HOLDING LIMITED

中國普甜食品控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)

Stock Code 股份代號: 1699



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18

INTERIM REPORT
中期報告

★ PUTIAN ★

China Putian Food Holding Limited is a
**LEADING VERTICALLY INTEGRATED
PORK PRODUCTS SUPPLIER**

中國普甜食品控股有限公司為
領先的垂直一體化豬肉供應商



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CORPORATE INFORMATION

Directors

Executive Directors

Mr. Cai Chenyang (*Chairman and Chief Executive Officer*)
Mr. Cai Haifang
Ms. Ma Yilin (Appointed on 9 August 2018)

Independent Non-Executive Directors

Mr. Wu Shiming
Mr. Cai Zirong
Mr. Wang Aiguo

Audit Committee

Mr. Wu Shiming (*Committee Chairman*)
Mr. Cai Zirong
Mr. Wang Aiguo

Remuneration Committee

Mr. Cai Zirong (*Committee Chairman*)
Mr. Wu Shiming
Mr. Wang Aiguo

Nomination Committee

Mr. Wang Aiguo (*Committee Chairman*)
Mr. Wu Shiming
Mr. Cai Zirong

Company Secretary

Mr. Ku Kin Shing, Ignatius HKICPA, CPA (Aust.)

Legal Advisor

Cheung Tong & Rosa Solicitors

Auditors

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Principal Bankers

Bank of China
No. 156, Dongda Road
Chengxiang District
Putian City
Fujian Province, the PRC

Registered Office

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Room 3312, 33rd Floor, West Tower
Shun Tak Centre
No. 168–200 Connaught Road Central
Hong Kong

Head Office and Principal Place of Business in the PRC

Hualin Road, Hualin Industrial Zone
Chengxiang District
Putian City, Fujian Province
the PRC

Cayman Islands Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Company Website

www.putian.com.hk

Stock Code

1699

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

For the six months ended 30 June 2018 (the “Review Period”), China Putian Food Holding Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) recorded revenue of approximately RMB276,487,000, representing an increase of approximately 11.9% as compared with the six months ended 30 June 2017; the net loss for the Review Period was approximately RMB20,065,000, whilst the net profit for the six months ended 30 June 2017 was RMB8,942,000. The increase in revenue was mainly due to diversified development of sales channels and new addition of sales in Xiamen and Shanghai. On the other hand, the net loss was mainly due to decrease in selling price of white pork products as market price of white pork decreased in the PRC and the loss arising from change in fair value less costs to sell of biological assets and finance costs.

During the Review Period, the farms of the Group located in Hebei and Fujian ran well. In particular, 3,310 black hogs were moved out of the curtain-barns in the black hog farm newly built in Xuanhua, Hebei, with a current capacity utilization rate of 18.9%; the Shiti (石梯) and Xianglixiang (鄉里香) farms in Putian, Fujian continued to enhance capacity and utilization rate with 7,020 black hogs moved out of the curtain-barns in the first half of 2018, with a current capacity utilization rate of 46.5%. Moreover, the Company diversified its sales channels, expanding to a combination of channels including franchisee, membership, gift companies and e-commerce from original supermarkets and distributors. The products sold in supermarkets also enriched its forms by newly adding cutting packaging in the first half of the year in addition to the original modified atmosphere packaging, gift packaging, and frozen products. “Putian Black Pearl”, the high-end brand of the Company, further extended its penetration in the market with increasing proportion of sales revenue. Its high-end image has become more and more recognized through online and offline advertising and promotion plan. In the first half of 2018, the black pork products were sold well in key markets such as Fujian, Shanghai, Beijing, and Hong Kong with particularly high sales volume in Fujian and Beijing. Currently, revenue generated from the brand of “Putian Black Pearl” accounts for 37% of total revenue of the Group for the first half of the year with diversified sales channels, including over 72 stores in supermarkets, family delivery package membership in high-end communities, group food and beverage, enterprise procurement, and distributors.



Financial Review

1. Revenue

The following table sets out a breakdown of the revenue of the Group by sales segments and their relevant percentage to the total revenue during the Review Period:

| | Six months ended 30 June | | | |
|----------------------------|--------------------------|-----------------------------|---------------------|-----------------------------|
| | 2018 | Percentage of total revenue | 2017 | Percentage of total revenue |
| | RMB'000 (unaudited) | (%) | RMB'000 (unaudited) | (%) |
| Revenue | | | | |
| Retail of pork | 165,472 | 59.9 | 141,831 | 57.4 |
| Wholesale of pork | 91,778 | 33.2 | 96,281 | 39.0 |
| Retail of frozen pork | 14,412 | 5.2 | 6,801 | 2.7 |
| Wholesale of commodity hog | 4,825 | 1.7 | 2,231 | 0.9 |
| | 276,487 | 100.0 | 247,144 | 100.0 |

The total unaudited revenue of the Group increased from approximately RMB247,144,000 for the six months ended 30 June 2017 to approximately RMB276,487,000 for the six months ended 30 June 2018, resulting in an increase in total revenue of approximately 11.9% as compared with the corresponding period of last year, which was mainly attributable to diversified development of sales channels and new addition of sales in Xiamen and Shanghai.

Revenue from Retail of Pork

The Group's unaudited revenue from retail of pork increased from approximately RMB141,831,000 for the six months ended 30 June 2017 to approximately RMB165,472,000 for the six months ended 30 June 2018, representing an increase of approximately 16.7%, which was mainly attributable to diversified development of sales channels and new addition of sales in Xiamen and Shanghai, and an increase in sales quantity by approximately 26%. The Group continued to expand its sales network with a view to increase the market share of pork retailing in the target markets. During the Review Period, the Group newly added a total of 15 supermarkets and 2 direct sales outlets. The new supermarkets are located in Beijing and Fujian; 3 of them are located in Beijing and 12 are located in Fujian (4 Wal-marts in Quanzhou and 3 Wal-marts in Xiamen); the 2 new direct sales outlets are also located in Fujian. Moreover, the Group actively developed online business as well. During the Review Period, new e-commerce channels were established in Beijing and Putian, Fujian; 9 offline sales outlets for fresh food were also opened. Through internet advertising campaigns and favorable recommendations among customers, "Putian" brand has gradually gained recognition of being reliable and savory, particularly from high-spending customers, who are highly concerned with their living standards. The management expects that the revenue from retail of pork will further increase by leveraging further expansion of the distribution networks of "Putian" brand.

Revenue from Wholesale of Pork

The Group's unaudited revenue from wholesale of pork decreased from approximately RMB96,281,000 for the six months ended 30 June 2017 to approximately RMB91,778,000 for the six months ended 30 June 2018, representing a decrease of approximately 4.7%, which was primarily due to improved customer structure with a decrease of wholesale customers with lower gross profit.



MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

Revenue from Retail of Frozen Pork

The Group's unaudited revenue from retail of frozen pork increased from approximately RMB6,801,000 for the six months ended 30 June 2017 to approximately RMB14,412,000 for the six months ended 30 June 2018, representing an increase of approximately 111.9%, which was mainly attributable to diversified sales channels thereby increasing sales of frozen pork.

Revenue from Wholesale of Commodity Hogs

The Group's unaudited revenue from wholesale of commodity hogs increased from approximately RMB2,231,000 for the six months ended 30 June 2017 to approximately RMB4,825,000 for the six months ended 30 June 2018, representing an increase of approximately 116.3%, and accounting for approximately 1.7% of the total revenue; such increase was mainly attributable to diversified sales channels thereby increasing sales of commodity hogs.

The Group will make strenuous efforts to develop high-end pork products and expand its product offerings and sales channels, so as to satisfy consumers' demand for high quality products.

2. Gross Profit and Gross Profit Margin

The following table sets out the total gross profit and gross profit margin of the Group by sales segments during the Review Period:

| | Six months ended 30 June | | | |
|---|--------------------------|------------------------|------------------------|------------------------|
| | 2018 | | 2017 | |
| | Gross profit margin | Gross profit margin | Gross profit margin | Gross profit margin |
| | RMB'000 (unaudited) | (%) | RMB'000 (unaudited) | (%) |
| Gross profit and gross profit margin | | | | |
| Retail of pork | 29,175 | 17.6 | 29,204 | 20.6 |
| Wholesale of pork | 13,519 | 14.7 | 16,136 | 16.8 |
| Retail of frozen pork | 646 | 4.5 | 417 | 6.1 |
| Wholesale of commodity hog | 814 | 16.9 | 703 | 31.5 |
| | 44,154 | 16.0 | 46,460 | 18.8 |

The overall unaudited gross profit of the Group decreased from approximately RMB46,460,000 for the six months ended 30 June 2017 to approximately RMB44,154,000 for the six months ended 30 June 2018. The overall gross profit margin of the Group decreased from 18.8% for the six months ended 30 June 2017 to approximately 16.0% for the six months ended 30 June 2018. The decrease in gross profit and gross profit margin was attributable to the decrease of the selling price of white pork products as market price of white pork decreased in the PRC during the reporting period.

Gross Profit and Gross Profit Margin for the Retail of Pork

The gross profit from the retail of pork decreased from approximately RMB29,204,000 for the six months ended 30 June 2017 to approximately RMB29,175,000 for the six months ended 30 June 2018. The gross profit margin for the retail of pork dropped from approximately 20.6% for the six months ended 30 June 2017 to approximately 17.6% for the six months ended 30 June 2018. For the Review Period, the gross profit and gross profit margin for this segment dropped due to decrease in selling price of white pork products as market price of white pork decreased in the PRC.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

Gross Profit and Gross Profit Margin for the Wholesale of Pork

The gross profit from the wholesale of pork dropped from approximately RMB16,136,000 for the six months ended 30 June 2017 to approximately RMB13,519,000 for the six months ended 30 June 2018. The gross profit margin for the wholesale of pork dropped from approximately 16.8% for the six months ended 30 June 2017 to approximately 14.7% for the six months ended 30 June 2018. The decrease in gross profit and gross profit margin for the wholesale of pork was mainly due to the decrease in selling price of white pork products as market price of white pork decreased in the PRC.

Gross Profit and Gross Profit Margin for the Retail of Frozen Pork

The gross profit from the retail of frozen pork increased from approximately RMB417,000 for the six months ended 30 June 2017 to approximately RMB646,000 for the six months ended 30 June 2018. The gross profit margin for the retail of frozen pork decreased from approximately 6.1% for the six months ended 30 June 2017 to approximately 4.5% for the six months ended 30 June 2018. The increase in gross profit for this segment was mainly due to the Group's targeted promotion for black pork products thereby increasing sales of high-end black pork.

Gross Profit and Gross Profit Margin for the Wholesale of Commodity Hogs

The gross profit from the wholesale of commodity hogs increased from approximately RMB703,000 for the six months ended 30 June 2017 to approximately RMB814,000 for the six months ended 30 June 2018. The gross profit margin for the wholesale of commodity hogs decreased from approximately 31.5% for the six months ended 30 June 2017 to approximately 16.9% for the six months ended 30 June 2018. The decrease in gross profit margin for the wholesale of commodity hogs was mainly due to the decrease of prices of hogs in the prevailing market during the Review Period.

3. Loss for the six months ended 30 June 2018

For the six months ended 30 June 2018, the Group recorded a loss of approximately RMB20,065,000 (for the six months ended 30 June 2017, there was a profit of approximately RMB8,942,000), which was mainly due to (i) a decrease in selling price of white pork products as market price of white pork decreased in the PRC; (ii) the loss arising from change in fair value less costs to sell of biological assets of approximately RMB18,891,000, as compared with a loss of approximately RMB5,673,000 for the six months ended 30 June 2017, mainly attributable to the decrease of market price of white pork in the PRC during the reporting period; and (iii) the increase in finance costs of approximately RMB4,784,000 mainly due to the increase in imputed interest of the convertible bond in the principal amount of HK\$150,000,000 due 2018 with an annual interest rate of 5% payable semi-annually in arrears and an administrative fee of 2% per annum which was deducted as a lump sum from the issue price at the closing of the subscription and issue of such convertible bond on 13 October 2016 issued by the Company to Vandi Investments Limited on 13 October 2016 and the non-convertible note in the principal amount of HK\$110,000,000 due 2018 with an annual interest rate of 6% payable semi-annually in arrears and an administrative fee of 2% per annum which was deducted as a lump sum from the issue price at the closing of the subscription and issue of such note on 13 October 2016 issued by the Company to Vandi Investments Limited on 13 October 2016; even though there were (i) the increase of revenue, mainly attributable to diversified development of sales channels and new addition of sales in Xiamen and Shanghai; (ii) the increase of other income and (iii) the decrease in the selling and distribution expenses from approximately RMB15,087,000 for the six months ended 30 June 2017 to approximately RMB13,135,000 for the six months ended 30 June 2018.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

Prospects

1. Enhance competitiveness of “Putian Black Pearl” to deepen its image of high-end brand

Nowadays, consumers further increase their awareness of high-end pork products and have made a change in the needs for branded and safe pork. Accordingly, series products of “Putian Black Pearl”, a high-end brand created by the Group in accordance with the market demands, have witnessed increasing market shares and expanding sales networks. In the future, e-commerce, community stores and family delivery package membership will become main channels for selling high-end pork. Leveraging on the advantage of being leading position in the pork industry in Fujian, the Group will actively promote high-end pork products by vigorously propelling online and offline advertising and promotion plans so as to increase proportion of sales revenue from black pork products, optimize sales structure and deepen the high-end brand image. By adhering to the spirit of innovation, the Group will continue to diversify its product lines by developing new kinds of series products under “Putian Black Pearl”, including processed products such as cooked products and snacks. Actively expanding its sales network to high-end markets such as Fuzhou and Xiamen, the Group will steadily propel the strategic plan of “White to Black” (白轉黑). New farms in Xuanhua, Hebei, and Shiti and Xianglixiang in Putian, Fujian have also recorded increasing capacity and satisfactory progress, favorable to laying foundation for the Group to further enhance sales competitiveness of its high-end black pork. The Group will continue its distribution and development plan for “Putian Black Pearl” in a diversified manner, including entering into approximately over 107 outlets of direct sales outlets and supermarkets such as Walmart and Sam’s Club, Carrefour, Auchan, Wumart, AEON, Yonghui, Tesco, Jiu Guang Department Store, LOTUS and Hema Xiansheng (盒馬鮮生); developing 30 or more high-end food and beverage and hotel units in the next six months; developing 20 fresh delivery family members; and opening 120 new sales outlets in Beijing,



being our key market. In this July, the shares of the Company were subscribed by a wholly-owned subsidiary of Beijing Capital Agribusiness Group, a state-owned enterprise, which indicated its affirmation and encouragement to the development prospects of the black hog business of the Group. The details of the share subscription were disclosed under the section headed “Event After Reporting Period” below.

2. Expand targeted online businesses to create well-developed internet sales platforms

“New retail” concept is currently popular in China, which requires combination of online and offline logistics while improving retail efficiency through advanced methods such as use of big data. Catering to this trend, the Group integrates its online and offline resources. While continuing to develop its offline sales channels, the Group actively expands the internet market, especially further promoting the Group’s brand of high-end pork to make consumers be aware of its image of high-end products. The Group completed the updating of its self-established WeChat Mall system in March 2018 with a view to creating a more well-developed internet sales platform to attract and expand its customer base with loyalty. E-commerce can not only expand sales but also effectively facilitate brand promotion and create brand recognition. In the second half of 2018, the Group will establish e-commerce platforms in regions including Shanghai, Jiangsu and Zhejiang, so as to expand targeted online businesses, increase traffic and raise the ranking of its stores. Through further online promotion, the Group will strengthen consumers’ confidence and draw their attention to its brand. Moreover, the Group will also continue its current pork nutrition and health education and “Putian” corporate culture promotion so as to cultivate customer loyalty and gain recognition and love from consumers.

3. Cater for market demands for high-end pork and strengthen market retail in key regions

With consumption concepts changing, Chinese consumers have higher and higher demand for green and healthy food, for which the high-end pork products of the Group cater. Capitalizing on this business opportunity, the Group will expand sales channels and strengthen management to launch innovative products in key markets such as Beijing, Shanghai, and Hong Kong. As a key development region in the hog industry under the national planning, Hebei will be the key region to develop distribution outlets by the Group. The Group’s black hog farm in Xuanhua, Hebei has bright prospects and lays a foundation for the Group to further develop the high-end pork market. In addition, the Group will also promote black pork products in various markets such as Guangzhou, Shenzhen, Fuzhou and Xiamen so as to actively increase its market share. The Group expects that 120 new outlets will be opened in Beijing in the second half of 2018. In particular, the Group plans to establish in Beijing 30 food and beverage channels, 30 channels of community agricultural trade and fresh food supermarkets, 20 wholesale channels, 20 channels of new retail chain fresh food supermarkets, and 20 channels of group purchase.

Liquidity and Financial Resources

Financial Resources

The Group primarily finances the capital required for operations by internally generated cashflow and bank facilities. As at 30 June 2018, cash and bank balances amounted to approximately RMB12,639,000 (31 December 2017: approximately RMB7,475,000).



MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

Borrowings and Pledged Assets

As at 30 June 2018, the total amount of interest-bearing bank borrowings and bank overdrafts were approximately RMB280,614,000 and RMB4,095,000 respectively, all of which would be due within one year (31 December 2017: bank borrowings and bank overdrafts were approximately RMB257,469,000 and RMB4,132,000 respectively). The total amount of interest-bearing bank borrowings and bank overdrafts were denominated in Renminbi and Hong Kong Dollar respectively, and on a floating interest rate.

As at 30 June 2018, the bank borrowings of approximately RMB280,614,000 was pledged/charge over the Group's property, plant and equipment and land with a total carrying value of approximately RMB110,911,000 (31 December 2017: approximately RMB113,230,000) and was guaranteed by the Company and the Company's director, Mr. Cai Chenyang.

Gearing Ratio

As at 30 June 2018, the gearing ratio of the Group was 76.7% (31 December 2017: 65.6%). This was calculated by dividing interest-bearing borrowings, amount due to a shareholder, bank overdrafts, obligation under finance lease and convertible bond with the total equity of the Group as at 30 June 2018.

Foreign Exchange Risk

The Group's main operations are located at Putian City, Fujian Province, the PRC. Most of the assets, income, payments and cash balances are denominated in Renminbi. Additionally, the Group has not entered into any foreign exchange hedging arrangement. The directors of the Company (the "Directors") consider that exchange rate fluctuation had no material impact on the Company's performance.

Material Acquisitions and Disposal of Subsidiaries

Save as disclosed, there was no material acquisition and disposal of subsidiaries or associated companies during the Review Period. The detail of disposal of interest in a joint venture company were disclosed under the section headed "Disposal of Interest in a Joint Venture Company".

Establishment of the Fund

On 29 January 2018, the Company, Xinyi Investment Fund Management (Beijing) Co., Ltd* (新毅投資基金管理(北京)有限公司), Hebei Ji Cai Industry Guidance Equity Investment Fund Limited* (河北省冀財產業引導股權投資基金有限公司) ("JICAI Fund") and Xinyi Holdings Limited* (新毅控股有限公司) entered into a partnership agreement, pursuant to which the partners agreed to establish a fund and proposed to name it "Zhangjiakou Xinyi Putian Green Ecological Agricultural Development Equity Investment Fund (Limited Partnership)* (張家口新毅普甜綠色生態農業發展股權投資基金(有限合夥))". The term of the fund is 5 years from its establishment date, and with the unanimous approval of all the partners, such term may be extended or shortened. The total amount of the capital commitment of all the partners to the fund would be RMB200,000,000 (equivalent to approximately HK\$240,000,000). The capital commitment of the Company to the fund would be 15% thereof, i.e. RMB30,000,000 (equivalent to approximately HK\$36,000,000).

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

The principal businesses of the fund would be investments in unlisted companies and unlisted shares of listed corporations regarding agricultural area in Hebei Province of the PRC. The objective of the fund is to invest in agricultural area in Hebei Province of the PRC, which would facilitate the integration of the agricultural resources and the development of the agricultural product market in the region. It is expected that the Group's hog business, in particular in Hebei province, would benefit from such development.

Also, the other partners of the fund are with strong experience in investments, and JICAI Fund is the investment platform under the financial department of the Hebei Province of the PRC. The Directors believe that joint venturing with the other partners would foster business relationships of the Group with the other partners for the future development of the Group.

Disposal of Interest in a Joint Venture Company

On 13 June 2018, the Company and Beijing Heiliu Muye Keji Company Limited* (北京黑六牧業科技有限公司) (the "JV Partner") entered into a transfer agreement, pursuant to which the Company agreed to transfer to the JV Partner all of its 40% equity interest in Hebei Shoulong Heiliu Putian Muye Company Limited* (河北首農黑六普甜牧業有限公司) (the "JV Company") and the JV Partner assumed the obligations of the Company to pay the RMB40,000,000 capital contribution to the JV Company. Upon completion of the disposal, the Company will not hold any equity interest in the JV Company. Subject to further audit procedures to be performed by the auditor of the Company, the Company is expected to record no gain or loss for the disposal, which was calculated with reference to the book value of the 40% equity interest in the JV Company. The amount equivalent to the capital commitment of RMB40,000,000 relieved from the Company will be used as general working capital.

In order to focus on strengthening and developing the Group's self-operated pig industry chain business and the existing indigenous black pig breeding business, and to seize opportunities for core business growth, the board of Directors resolved that the Company would withdraw from the JV Company, so as to reallocate assets to self-operated businesses relating to pig farming and trading of the Group and to use and distribute the Group's resources and working capital more effectively.

Event After Reporting Period

Proposed allotment of new shares under specific mandate involving connected person

On 30 July 2018, the Company announced that it entered into the subscription agreements with Zhan Rui Investments Limited ("Zhan Rui") and BCAG International (HK) Limited ("BCAGI", a wholly-owned subsidiary of Beijing Capital Agribusiness Group), pursuant to which Zhan Rui and BCAGI had conditionally agreed to subscribe for 190,000,000 new shares of the Company ("Zhan Rui Subscription Shares") and 99,000,000 new shares of the Company ("BCAGI Subscription Shares"), respectively, at the subscription price of HK\$0.140 per subscription share. The aggregate gross proceeds of the subscription were estimated to be HK\$40,460,000, and the aggregate net proceeds of the subscription (after deducting all applicable costs and expenses reasonably incurred in relation to the entering of the subscription agreements) were estimated to be HK\$39,900,000. The entire portion of the net proceeds was intended to be used to repay partially the shareholder loan due to Mr. Cai Chenyang by the Company and to repay bank borrowings in the principal amount of approximately HK\$13.3 million, so as to lower the Group's gearing ratio and strengthen the financial position of the Group.



MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

The Zhan Rui Subscription Shares and BCAGI Subscription Shares in aggregate represent:

- (i) approximately 18.06% of the existing issued share capital of the Company as at 30 July 2018;
- (ii) approximately 15.30% of the issued share capital of the Company as enlarged by the proposed allotment and issue of the Zhan Rui Subscription Shares and BCAGI Subscription Shares (assuming there will be no other changes in the issued share capital of the Company).

The Zhan Rui Subscription Shares and BCAGI Subscription Shares will be allotted and issued under a specific mandate to be granted by the shareholders of the Company other than Mr. Cai Chenyang and his associates at an extraordinary general meeting of the Company and will rank *pari passu* in all respects among themselves and with the issued shares of the Company at completion.

Proposed allotment of new shares under general mandate

On 17 September 2018, the Company announced that it entered into a subscription agreement with Best Tower Holdings Limited ("Best Tower"), pursuant to which Best Tower has conditionally agreed to subscribe for 79,840,000 new shares of the Company ("Best Tower Subscription Shares"), at the subscription price of HK\$0.281 per subscription share. The gross proceeds of the subscription are HK\$22,435,040, and the net proceeds of the subscription, after deducting all related fees and expenses, are estimated to be approximately HK\$22,085,000. It is intended that the net proceeds will be used to repay certain bank borrowings and for general working capital, so as to lower the Group's gearing ratio and strengthen the financial position of the Group.

The Best Tower Subscription Shares in aggregate represent:

- (i) approximately 4.99% of the existing issued share capital of the Company as at 17 September 2018;
- (ii) approximately 4.06% of the issued share capital of the Company as enlarged by the allotment and issue of the Best Tower Subscription Shares, the BCAGI Subscription Shares and the Zhan Rui Subscription Shares (assuming there will be no other changes in the issued share capital of the Company between its announcement on 17 September 2018 and the completion of this subscription).

The subscription shares will be allotted and issued under the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 27 June 2018, under which up to a total of 320,000,000 shares of the Company (being up to 20% of the aggregate number of issued shares of the Company as at the date of the passing of the relevant resolution, which was 27 June 2018) can be allotted and issued by the Directors.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

Operating Lease Commitments

As at 30 June 2018, the Group had operating lease commitments of approximately RMB47,121,000 (31 December 2017: approximately RMB49,511,000).

Contingent Liabilities

As at 30 June 2018, the Group had no material contingent liabilities (31 December 2017: Nil).

Capital Commitments

As at 30 June 2018, the Group had capital commitments of approximately RMB76,709,000 (31 December 2017: approximately RMB73,639,000), which mainly comprised commitments for the construction in process at Hebei and Fujian.

Human Resources

As at 30 June 2018, the Group had 598 employees. Staff costs, including directors' emoluments, totalled approximately RMB18,194,000 (30 June 2017: approximately RMB14,790,000) during the Review Period. All of the Group's companies are equal-opportunity employers, with the selection and promotion of individuals based on their suitability for the positions offered. The Group operates a defined contribution mandatory provident fund as retirement benefits for its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC.





INTERIM FINANCIAL REPORT

The board of Directors (the "Board") of China Putian Food Holding Limited (the "Company") is pleased to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018 with comparative figures for the corresponding period in 2017. These condensed consolidated interim financial statements have not been audited but have been reviewed by the Audited Committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------------|--------------------------------|
| | | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| Revenue | 4 | 276,487 | 247,144 |
| Cost of sales | | (232,333) | (200,684) |
| Gross profit | | 44,154 | 46,460 |
| Other income and losses | 5 | 3,992 | 380 |
| Loss arising from change in fair value less costs to sell of biological assets | 12 | (18,891) | (5,673) |
| Selling and distribution expenses | | (13,135) | (15,087) |
| Administrative expenses | | (18,561) | (18,121) |
| Finance costs | 6 | (27,948) | (23,164) |
| Gain arising from fair value change of derivative financial liabilities | | 10,324 | 24,147 |
| (Loss)/profit before taxation | | (20,065) | 8,942 |
| Taxation | 7 | — | — |
| (Loss)/profit for the period | 8 | (20,065) | 8,942 |
| Other comprehensive (loss)/income for the period, net of income tax: | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences on translating foreign operations | | (11,141) | 7,373 |
| Other comprehensive (loss)/income for the period, net of income tax | | (11,141) | 7,373 |
| Total comprehensive (loss)/income for the period | | (31,206) | 16,315 |
| (Loss)/profit for the period attributable to the owners of the Company | | (20,065) | 8,942 |
| Total comprehensive (loss)/income for the period attributable to the owners of the Company | | (31,206) | 16,315 |
| (Loss)/earning per share | | | |
| Basic and diluted (RMB cents per share) | 10 | (1.25) | 0.56 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

| | Notes | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|--|-------|--|--|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 568,271 | 570,020 |
| Prepaid lease payments | | 78,818 | 81,007 |
| Biological assets | 12 | 21,974 | 16,234 |
| Deposits paid for property, plant and equipment | | 10,000 | 12,553 |
| | | 679,063 | 679,814 |
| Current assets | | | |
| Inventories | | 98,955 | 103,761 |
| Biological assets | 12 | 126,884 | 116,733 |
| Trade receivables | 13 | 103,944 | 97,008 |
| Deposits paid, prepayments and other receivables | 14 | 69,677 | 74,512 |
| Prepaid lease payments | | 4,378 | 4,378 |
| Pledged bank deposits | | 4,275 | 4,290 |
| Cash and bank balances | | 12,639 | 7,475 |
| | | 420,752 | 408,157 |
| Current liabilities | | | |
| Trade and bills payables | 15 | 18,090 | 11,918 |
| Accruals, deposits received and other payables | 16 | 20,704 | 18,801 |
| Borrowings | 18 | 280,614 | 257,469 |
| Convertible bonds | 19 | 122,418 | 104,763 |
| Derivative financial liability | 19 | 1 | 10,584 |
| Bank overdrafts | | 4,095 | 4,132 |
| Deferred revenue | | 253 | 253 |
| | | 446,175 | 407,920 |
| Net current (liabilities)/assets | | (25,423) | 237 |
| Total assets less current liabilities | | 653,640 | 680,051 |



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2018

| | <i>Notes</i> | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|--------------------------------|--------------|---|--|
| Non-current liabilities | | | |
| Obligation under finance lease | | 29,695 | 35,000 |
| Amount due to shareholder | | 22,488 | 12,261 |
| Deferred revenue | | 2,553 | 2,680 |
| | | 54,736 | 49,941 |
| Net assets | | 598,904 | 630,110 |
| Equity | | | |
| Share capital | 17 | 65,178 | 65,178 |
| Share premium and reserves | | 533,726 | 564,932 |
| Total equity | | 598,904 | 630,110 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

| | Share capital | Share premium | Exchange reserve | Statutory reserve | Convertible bonds equity reserve | Share options reserve | Warrants reserve | Other reserve | Retained earnings | Total |
|---|---------------|---------------|------------------|-------------------|----------------------------------|-----------------------|------------------|---------------|-------------------|-----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2017 (Audited) | 65,178 | 18,586 | (18,650) | 67,757 | — | 25,731 | 12,758 | 53,015 | 376,352 | 600,727 |
| Profit for the period | — | — | — | — | — | — | — | — | 8,942 | 8,942 |
| Other comprehensive income for the period | — | — | 7,373 | — | — | — | — | — | — | 7,373 |
| Total comprehensive income for the period | — | — | 7,373 | — | — | — | — | — | 8,942 | 16,315 |
| Transfer to statutory reserve | — | — | — | 1,988 | — | — | — | — | (1,988) | — |
| As at 30 June 2017 (Unaudited) | 65,178 | 18,586 | (11,277) | 69,745 | — | 25,731 | 12,758 | 53,015 | 383,306 | 617,042 |
| As at 1 January 2018 (Audited) | 65,178 | 18,586 | (931) | 71,506 | — | 26,803 | — | 53,015 | 395,953 | 630,110 |
| Loss for the period | — | — | — | — | — | — | — | — | (20,065) | (20,065) |
| Other comprehensive loss for the period | — | — | (11,141) | — | — | — | — | — | — | (11,141) |
| Total comprehensive loss for the period | — | — | (11,141) | — | — | — | — | — | (20,065) | (31,206) |
| Transfer to statutory reserve | — | — | — | 1,951 | — | — | — | — | (1,951) | — |
| As at 30 June 2018 (Unaudited) | 65,178 | 18,586 | (12,072) | 73,457 | — | 26,803 | — | 53,015 | 373,937 | 598,904 |



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

| | Six months ended 30 June | |
|---|---|--------------------------------|
| | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| Net cash generated from operating activities | 3,515 | 51,288 |
| Investing activities | | |
| Interest received | 41 | 2 |
| Deposits paid for property, plant and equipment | 726 | (10) |
| Acquisition of a subsidiary | — | (17,742) |
| Proceeds from disposal of property, plant and equipment | 1,945 | — |
| Purchase of property, plant and equipment | (9,842) | (28,804) |
| Net cash used in investing activities | (7,130) | (46,554) |
| Financing activities | | |
| Interest paid | (8,839) | (9,997) |
| Proceeds from bank borrowings | 141,344 | 120,000 |
| Repayments of bank borrowings | (125,805) | (120,000) |
| Increase in amount due to a shareholders | 10,228 | — |
| Decrease/(increase) in pledged bank deposits | 15 | (60) |
| Net cash generated from/(used in) financing activities | 16,943 | (10,057) |
| Net increase/(decrease) in cash and cash equivalents | 13,328 | (5,323) |
| Cash and cash equivalents at beginning of the period | 3,343 | 8,675 |
| Effect of foreign exchange rate changes | (8,127) | (364) |
| Cash and cash equivalents at end of the period | 8,544 | 2,988 |
| Cash and cash equivalents at end of the period | | |
| Cash and bank balances | 12,639 | 7,551 |
| Bank overdrafts | (4,095) | (4,563) |
| | 8,544 | 2,988 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. Basis of Preparation

The condensed consolidated interim financial information for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). They have been prepared under the historical cost convention, except for financial assets and financial liabilities, which are carried at fair value. The condensed consolidated interim financial information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated interim financial information is unaudited but have been reviewed by the audit committee of the Company.

2. Significant Accounting Policies

The adoption of these amendments to HKFRSs has no material impact on the Group’s result and financial position for the current or prior periods. The Group has not applied any new standard or amendment that is not effective for the current accounting period.

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

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

3. Segment Information

The Group currently operates in one operating segment which is the sales of pork and hog operation. A single management team reports to the Group’s Chief Executive Officer (being the chief operating decision-maker) who allocates resources and assesses performance based on the consolidated results for the year for the entire business comprehensively. Accordingly, the Group does not present separately segment information.

During each of the reporting period, all revenue is derived from customers in the People’s Republic of China (the “PRC”) and almost all the non-current assets of the Group are located in the PRC.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

4. Revenue

Revenue represents the net invoiced value of goods sold, excludes value added tax or other sales tax and is after deduction of any trade discounts.

| | Six months ended 30 June | |
|-------------------------------|---------------------------------|-------------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Revenue from | | |
| — Retail of pork | 165,472 | 141,831 |
| — Wholesale of pork | 91,778 | 96,281 |
| — Retail of frozen pork | 14,412 | 6,801 |
| — Wholesale of commodity hogs | 4,825 | 2,231 |
| | 276,487 | 247,144 |

5. Other Income and Losses

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Interest income on: | | |
| — bank deposits | 41 | 2 |
| — amortisation of deferred revenue | 127 | 127 |
| Total interest income | 168 | 129 |
| Gain on disposal of hog droppings | 55 | 31 |
| Gain on disposal of biological assets | 2,029 | — |
| Gain on derecognition of prepaid lease payment | — | 222 |
| Consultancy fee income | 600 | — |
| Government grants (<i>Note</i>) | 1,017 | — |
| Sundry incomes/(expenses) | (123) | (2) |
| | 3,992 | 380 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

5. Other Income and Losses (Continued)

Note:

Government grants include subsidies income received by a subsidiary of the Group which operates in the PRC in accordance with the subsidy policies of local government authorities and in relation to the construction of hog farms and slaughterhouse. Subsidies income received by a subsidiary of the Group is recognised in the consolidated statements of profit or loss and comprehensive income when received and no specific conditions have been required to fulfill. Those government grants in relation to the construction of hogs farm and slaughterhouse are recognised as deferred revenue. The government grants recognised during the year are non-recurring. There are no unfulfilled conditions or contingencies relating to these government grants.

6. Finance Costs

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| Interest on: | | |
| — Borrowings wholly repayable within five years | 8,355 | 4,367 |
| — Bank overdrafts wholly repayable within five years | 59 | 85 |
| — Imputed interest charged on convertible bonds (Note 19) | 18,438 | 18,712 |
| — Finance lease | 1,096 | — |
| | 27,948 | 23,164 |

7. Taxation

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| (Loss)/profit before taxation | (20,065) | 8,942 |
| Tax at the applicable income tax rate | (3,777) | 2,281 |
| Tax exemption for subsidiary operating in the PRC | (2,195) | (2,369) |
| Tax effect of expenses not deductible for tax purpose | 452 | 3,210 |
| Tax effect of income not taxable for tax purpose | (1,594) | (3,357) |
| Tax effect of tax loss not recognised | 7,114 | 235 |
| Income tax expenses | — | — |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

7. Taxation (Continued)

Notes:

Hong Kong

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. The two-tiered profits tax rate applies to years of assessment commencing on or after 1 April 2018.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. For the relevant period in the six months ended 30 June 2018, Hong Kong profits tax of the qualifying corporation in the Group is calculated in accordance with the two tiered profits tax rates regime. The profits of other corporations in the Group which are not qualified for the two-tiered profits tax rates regime will continue to be taxed at the rate of 16.5% (six months ended 30 June 2017: 16.5%).

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax during the reporting period.

PRC

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

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

Meat processing of primary produce is on the list of The Range of Processing of Primary Agricultural Produces to Be Given Preferential Enterprise Income Tax Treatment (Trial Implementation) (2008 version) (享受企業所得稅優惠政策的農產品初加工範圍(試行)(2008年版)) promulgated by the Ministry of Finance (財政部) and the State Administration of Taxation (國家稅務總局) on 20 November 2008. Tianyi (Fujian) Modern Agriculture Development Co., Ltd, Putian (Beijing) Food Limited, Putian Hebei Farming Development Corporation Limited and 莆田市鄉里香黑豬開發有限公司 meet the required standard for preferential PRC EIT treatment.

According to the prevailing tax rules and regulations, Tianyi (Fujian) Modern Agriculture Development Co., Ltd and Putian (Beijing) Food Limited, Putian Hebei Farming Development Corporation Limited and 莆田市鄉里香黑豬開發有限公司 operating in the business of primary processing of agricultural products was exempted from the PRC EIT during the six months ended 30 June 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

8. (Loss)/Profit for the Period

(Loss)/profit for the period has been arrived at after charging:

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Staff costs including directors' emoluments | | |
| Salaries and other emoluments | 17,303 | 13,990 |
| Retirement scheme contributions | 891 | 800 |
| Total staff costs | 18,194 | 14,790 |
| Depreciation of property, plant and equipment | 9,651 | 12,006 |
| Amortisation of prepaid lease payments | 2,189 | 2,189 |
| Total depreciation and amortisation | 11,840 | 14,195 |

9. Dividends

The directors of the company do not recommend the payment of any dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

10. (Loss)/Earning Per Share Attributable to Owners of the Company

The calculation of the basic and diluted (loss)/earning per share attributable to the owners of the Company is based on the following data:

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| (Loss)/earning attributable to owners of the Company for the purpose of calculating basic (loss)/earning per share | (20,065) | 8,942 |

| | Six months ended 30 June | |
|--|-----------------------------|-----------------------------|
| | 2018 '000 (Unaudited) | 2017 '000 (Unaudited) |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earning per share | 1,600,000 | 1,600,000 |

For the six months ended 30 June 2018 and 2017, diluted (loss)/earning per share is the same as basic (loss)/earning per share as there is no potential ordinary share in issue.

11. Movement in Property, Plant and Equipment

During the period, the Group acquired buildings, plant and machinery, office equipment, motor vehicles and construction in progress of approximately RMB4,200,000 (2017: RMB4,728,000), RMB280,000 (2017: RMB38,000), RMB145,000 (2017: RMB1,045,000), RMBnil (2017: RMB3,000) and RMB3,271,000 (2017: RMB22,562,000) respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

12. Biological Assets

Movements of the biological assets are as follows:

| | Breeder hogs | Commodity hogs | Total |
|--|-------------------------|---------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2017 (Audited) | 7,725 | 83,518 | 91,243 |
| Acquisition of a subsidiary | 14,364 | 4,637 | 19,001 |
| Increase due to purchases | 7,032 | 291,680 | 298,712 |
| Increase due to raising (Feeding cost and others) | 6,833 | 154,958 | 161,791 |
| Transfer | (16,672) | 16,672 | — |
| Decrease due to retirement and deaths | (4,938) | (5,789) | (10,727) |
| Decrease due to sales | (6,309) | (436,648) | (442,957) |
| Change in fair value less costs to sell | 8,199 | 7,705 | 15,904 |
| As at 31 December 2017 and 1 January 2018 (Audited) | 16,234 | 116,733 | 132,967 |
| Increase due to purchases | 8,048 | 160,822 | 168,870 |
| Increase due to raising (Feeding cost and others) | 5,079 | 104,528 | 109,607 |
| Transfer | (7,708) | 7,708 | — |
| Decrease due to retirement and deaths | (2,413) | (3,416) | (5,829) |
| Decrease due to sales | (481) | (237,385) | (237,866) |
| Change in fair value less costs to sell | 3,215 | (22,106) | (18,891) |
| As at 30 June 2018 (Unaudited) | 21,974 | 126,884 | 148,858 |

Note: The Group's biological assets as at 30 June 2018 and 31 December 2017 have been arrived at on the basis of a valuation carried out by Assets Appraisal Limited (the "Valuer"). Given the nature of the biological assets where market determined prices are available, the fair values less costs to sell have been determined by the market approach based on the market-determined prices as at 30 June 2018 and 31 December 2017 adjusted with such attributes as pig breed and stage of growth in the lifecycle. The loss arising from changes in fair value less costs to sell of biological assets of approximately RMB18,891,000 (loss recognised for the six months ended 30 June 2017: approximately RMB5,673,000) has been recognised directly in profit or loss for the six months ended 30 June 2018.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

13. Trade Receivables

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|-------------------|---|--|
| Trade receivables | 103,944 | 97,008 |

The Group normally allows a credit period ranging from cash upon delivery to 90 days depending on the customer's creditworthiness and the length of business relationship with the customers. The ageing analysis of trade receivables based on the invoice dates as at the following dates are as follows:

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|----------------|---|--|
| Within 30 days | 40,861 | 33,633 |
| 31 to 90 days | 63,083 | 63,375 |
| | 103,944 | 97,008 |

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

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|----------------|---|--|
| 91 to 180 days | — | — |

The trade receivables are denominated in RMB. The Group does not hold any collateral over these balances.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

14. Deposits Paid, Prepayments and Other Receivables

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|-------------------------------------|---|--|
| Advances to staff | 2,801 | 1,506 |
| Other deposits paid and prepayments | 66,876 | 73,006 |
| | 69,677 | 74,512 |

15. Trade and Bills Payables

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|----------------|---|--|
| Trade payables | 3,840 | 5,518 |
| Bills payables | 14,250 | 6,400 |
| | 18,090 | 11,918 |

The ageing analysis of trade payables based on the invoice dates as at the following dates are as follows:

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|----------------|---|--|
| Within 30 days | 798 | 2,009 |
| 31 to 90 days | 2,338 | 1,784 |
| 91 to 180 days | 704 | 1,725 |
| | 3,840 | 5,518 |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

15. Trade and Bills Payables (Continued)

The average credit period on purchases of certain goods is generally within 15 days to 90 days.

The Group normally obtains credit terms within 30 days from its suppliers. The bills payables are matured within twelve months (2017: twelve months) from the end of the reporting period.

16. Accruals, Deposits Received and Other Payables

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|--|--|--|
| Deposits received | 626 | 957 |
| Other payables for property, plant and equipment | 19,609 | 1,565 |
| Accruals and other payables | 469 | 16,279 |
| | 20,704 | 18,801 |

17. Share Capital

Ordinary shares

| | Number of shares | Nominal value of ordinary shares HK\$'000 (Unaudited) | Total RMB'000 (Unaudited) |
|---|------------------|---|---------------------------------|
| Authorised: | | | |
| At 1 January and 30 June 2018 ordinary shares of HK\$0.05 each | 80,000,000,000 | 4,000,000 | 3,240,009 |
| Issued and fully paid: | | | |
| At 1 January and 30 June 2018 ordinary shares of HK\$0.05 each | 1,600,000,000 | 80,000 | 65,178 |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

18. Borrowings (Continued)

The contractual floating and fixed interest rates per annum in respect of borrowings were within the following ranges:

| | As at 30 June 2018 % (Unaudited) | As at 31 December 2017 % |
|---------------|---|-----------------------------------|
| | (Unaudited) | (Audited) |
| Floating rate | 3.42–5.12 | 3.42–4.89 |
| Fixed rate | 6.00–10.5 | 6.00 |

On 28 September 2016, the Company and Vandi Investments Limited (“the Investor”), a limited liability company incorporated in the BVI indirectly and wholly-owned by CCB International (Holdings) Limited and Mr. Cai Chenyang, entered into the subscription agreement (the “Subscription Agreement”) in respect of the issue of the non-convertible note (“Note”) in the principal amount of HK\$110,000,000 equivalent to approximately RMB92,226,000 due 2018 with an annual interest rate of 6.0% payable semi-annually and bear an administrative fee of 2.0% per annum which was deducted as a lump sum from the issue price at the closing of the subscription and issue of the Note on 13 October 2016.

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 |
|------|---|---|
| | (Unaudited) | (Audited) |
| Note | 92,226 | 90,023 |

Unless previously redeemed, or purchased and cancelled, the Company will redeem all the outstanding Note held by the noteholder on the date falling 2 years after the issue date of the Note at an amount equal to the aggregate of: (a) the aggregate principal amount of such outstanding Note held by such noteholder; and (b) any accrued but unpaid interest on such outstanding Note.

The principal terms of the Note are summarised in the Company’s announcement dated 28 September 2016.

As at 30 June 2018, the obligations of the Company in relation to the Note of approximately RMB92,226,000 were secured by, among others, 816,000,000 ordinary shares of the Company by Zhan Rui, as summarized in the Company’s announcement dated 28 September 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

18. Borrowings (Continued)

As at 30 June 2018, the Group's bank borrowings of RMB168,388,000 was guaranteed by the Company, Company's director, Mr. Cai Chenyang and pledged assets of the subsidiary, Tianyi (Fujian) Modern Agriculture Development Co., Ltd, with a total carrying value of approximately RMB110,911,000 (31 December 2017: approximately RMB113,230,000).

19. Convertible Bonds/Derivative Financial Liability

On 18 June 2014, the Company and Vandi Investments Limited ("the Investor"), a limited liability company incorporated in the BVI indirectly and wholly-owned by CCB International (Holdings) Limited, entered into the subscription agreement (the "Subscription Agreement 1") in respect of the issue of the convertible bonds ("Convertible Bonds due 2017") in the principal amount of HK\$200,000,000 equivalent to approximately RMB146,860,000 due 2017 with an annual interest rate of 9.5% payable semi-annually and bear an administrative fee of 1.0% per annum payable semi-annually in arrears. The net proceeds from the Convertible Bonds due 2017, after deducting expenses, are approximately HK\$198,834,000 equivalent to approximately RMB146,004,000.

Upon full conversion of the Convertible Bonds due 2017 at the initial conversion price of HK\$1.30 per share, a total of 153,846,153 conversion shares with a par value of HK\$0.10 each would have been issued before adjusted retrospectively for the share subdivision (one into two) with effect on 2 July 2015.

Upon full conversion of the Convertible Bonds due 2017 at the initial conversion price of HK\$0.65 per share, a total of 307,692,307 conversion shares with a par value of HK\$0.05 each would have been issued after adjusted retrospectively for the share subdivision (one into two) with effect on 2 July 2015.

As at 13 October 2016, no Convertible Bonds due 2017 has been converted and all Convertible Bonds due 2017 have been early redeemed.

On 28 September 2016, the Company and the Investor and Mr. Cai Chenyang, the chairman of the Board, the chief executive officer of the Company and the sole shareholder of Zhan Rui (as defined below) entered into the subscription agreement ("Subscription Agreement 2") in respect of the issue of the convertible bond ("Convertible Bond due 2018") in the principal amount of HK\$150,000,000 equivalent to approximately RMB128,606,000 due 2018 with an annual interest rate of 5.0% payable semi-annually and bear an administrative fee of 2.0% per annum which was deducted as a lump sum from the issue price at the closing of subscription and the issue of the Convertible Bond due 2018 on 13 October 2016. The proceeds from the Convertible Bond due 2018, after deducting expenses and the administrative fee, are approximately HK\$143,334,000 equivalent to approximately RMB122,891,000.

Upon full conversion of the Convertible Bond due 2018 at the initial conversion price of HK\$0.55 per share, a total of 272,727,273 ordinary shares with a par value of HK\$0.05 each would be issued.

If the order book volume weighted average price of the stock price for any 10 consecutive trading days in Hong Kong Stock Exchange is lower than HK\$0.40, the conversion price will be adjusted to HK\$0.44. Upon full conversion of the Convertible Bond due 2018 at the conversion price of HK\$0.44 per share, a total of 320,000,000 conversion shares with a par value of HK\$0.05 each would have been issued ("Convertible Price Adjustment").



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

19. Convertible Bonds/Derivative Financial Liability (Continued)

As at 30 June 2018, no Convertible Bond due 2018 has been converted.

The principal terms of the Convertible Bond due 2018 are summarised in the Company's announcement dated 28 September 2016.

Unless previously redeemed, repurchased and cancelled or converted, the Company will redeem all the outstanding Convertible Bond due 2018 held by the bondholder on the date falling 2 years after the issue date of such outstanding Convertible Bond due 2018 (the "Maturity Date"), at an amount equal to the aggregate of:

- (a) the aggregate principal amount of such outstanding Convertible Bond due 2018 held by such bondholder;
- (b) an amount which would give such bondholder an internal rate of return of 10% in respect of the aggregate principal amount of such outstanding Convertible Bond due 2018 as at the Maturity Date; and
- (c) any accrued but unpaid interest and administrative fee on such outstanding Convertible Bond due 2018.

The net proceeds received from the issue of the Convertible Bond due 2018 have been split between a liability component and a derivative financial liability as follows:

- (a) liability component is equal to the difference between the net proceeds received and the fair value of derivative financial liability, amounted to approximately HK\$89,912,000 equivalent to approximately RMB77,088,000, and it is subsequently measured at amortised cost by applying an effective interest rate of 36.90% per annum;
- (b) derivative financial liability, which is initially measured at fair value, amounted to approximately HK\$53,422,000 equivalent to approximately RMB45,803,000 which is presented in current liabilities as derivative financial liability.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

19. Convertible Bonds/Derivative Financial Liability (Continued)

The movements of the liability component, derivative financial liability and equity component of the convertible bonds for the Reporting Period are set out below:

| | Liability component | Derivative financial liability | Equity component | Total |
|--|--------------------------------|---|-----------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2017 | 85,931 | 38,547 | — | 124,478 |
| Imputed interest charged | 32,787 | — | — | 32,787 |
| Interest paid for the year | (6,505) | — | — | (6,505) |
| Change in fair value | — | (26,132) | — | (26,132) |
| Exchange alignment | (7,450) | (1,831) | — | (9,281) |
| As at 31 December 2017 and 1 January 2018 (Audited) | 104,763 | 10,584 | — | 115,347 |
| Imputed interest charged | 18,438 | — | — | 18,438 |
| Interest paid for the period | (2,762) | — | — | (2,762) |
| Change in fair value | — | (10,324) | — | (10,324) |
| Exchange alignment | 1,979 | (259) | — | 1,720 |
| As at 30 June 2018 (Unaudited) | 122,418 | 1 | — | 122,419 |

Net cash flow for issue/redemption of convertible bonds and non-convertible note is approximately RMB33,328,000 during the year ended 31 December 2016.

On 26 June 2014, Zhan Rui Investments Limited ("Zhan Rui"), a controlling shareholder of the Company executed a deed of share charge (the "Share Charge Deed") in favour of the Investor pursuant to which Zhan Rui shall charge as beneficial owner by way of fixed charge all its right, title and interest from time to time in and to the 816,000,000 shares as continuing security for the payment and discharge of all the Company's and Zhan Rui's obligation and liabilities due, owing or incurred by it to the Investor under or pursuant to, among others, the Subscription Agreement 1, the bond instrument constituting the Convertible Bonds due 2017, and the Share Charge Deed. On 13 October 2016, all Convertible Bonds due 2017 were early redeemed, and the security under the Share Charge Deed was released.

As at 31 December 2017 and 30 June 2018, the obligations of the Company in relation to the Convertible Bond due 2018 of RMB122,419,000 (2017: RMB115,347,000) were secured by, among others, 816,000,000 ordinary shares of the Company by Zhan Rui.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

20. Fair Value Measurement of Financial Instrument

Some of the Group's financial assets and liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

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

| Type | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|--|---------------------------|-------------------------------|----------------------|--|
| | 30 June 2018 (RMB'000) | 31 December 2017 (RMB'000) | | |
| Biological assets Breeder hogs and commodity hogs | 148,858 | 132,967 | Level 2 | The fair value less costs to sell of breeder hogs and porkers are determined using market approach with reference to the market determined prices of items with similar age, weight and breeds |
| Financial liability Derivative financial liability | 1 | 10,584 | Level 2 | The fair value is determined using Monte Carlo Simulation Model with assumptions with risk free rate, volatility, dividend yield and credit spread keep constant throughout the life of the convertible bond |

The Directors consider that the carrying amounts of financial assets and financial liabilities recognized in the condensed consolidated interim financial statements approximate their fair values.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

21. Share Option Scheme

Detail of the share option scheme of the Company

The purpose of the share option scheme approved and adopted by the Company on 22 June 2012 and becoming effective on 13 July 2012 (the "Share Option Scheme") is to recognise and motivate the contribution of its participant (including any employees, directors, or proposed director of any member of the Group, consultant, adviser, agent, contractor, client and supplier who in the sole discretion of the Board has contributed or is expected to contribute to the Group) and to provide incentives and help the Company retain its existing employees and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

The Company, by resolution in general meetings, or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but in respect of any option granted but not exercised the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. Subject to the aforesaid, the Share Option Scheme shall be valid and effective for a period of ten (10) years commencing from the effective date of the Share Option Scheme, after which no further options will be granted but in respect of any option granted but not exercised the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any such options.

The total number of shares ("Shares") in the share capital of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company shall not exceed 10% of the total number of Shares in issue as at the effective date of the Share Option Scheme. The Company may seek approval of its shareholders in general meeting to refresh the said 10% limit provided that the limit so refreshed shall not exceed 10% of the Shares in issue as at the date of approval of the refreshment (i.e. 80,000,000 shares with par value of HK\$0.1 each (equivalent to 160,000,000 shares with par value of HK\$0.05 each after the share subdivision of each share in the Company of par value of HK\$0.1 each into 2 shares of par value of HK\$0.05 each on 2 July 2015), which represent 10% of the total number of issued shares as at 29 June 2015, the date on which the scheme mandate limit was refreshed and renewed by an ordinary resolution passed by the shareholders at the annual general meeting of the Company). Notwithstanding the foregoing, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the Shares in issue from time to time (i.e. 480,000,000 Shares which represent 30% of the issued share capital as at the date of this annual report).

No participant of the Share Option Scheme may be granted option(s) which would result in the total number of Share issued and to be issued upon exercise of all options granted to him (including exercised, cancelled and outstanding options) in any 12 months period up to and including the date of such grant exceed 1% of the Shares in issue for the time being unless such grant has been approved by shareholders of the Company in general meeting with such grantee and his associate abstaining from voting.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

21. Share Option Scheme (Continued)

Detail of the share option scheme of the Company (Continued)

Under the Share Option Scheme, where any grant of options to a substantial shareholder of the Company or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the relevant class of Shares in issue and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be approved by shareholders, and the grantee, his associates and all connected persons of the Company must abstain from voting in favour at the relevant general meeting.

To accept an option, the grantee of the option shall remit in favour of the Company of HK\$1.00 as consideration for the grant and return to the Company the duplicate of the letter granting the option comprising the acceptance of the option duly signed by the grantee before 5:00 p.m. on the 20th business day following the date of the said grant letter.

Unless otherwise determined by the Board and stated in the letter granting the option, there is no minimum period required under the Share Option Scheme for which an option must be held before it can be exercised. Subject to such period as may be determined by the Board and other restrictions under the Share Option Scheme, options granted under the Share Option Scheme must be exercised within 10 years from the date on which the options shall be offered to the grantee.

The exercise price for an option is no less than the highest of (i) the closing price of the Shares at the date of the grant of such option; (ii) the average closing price of the Shares for 5 business days immediately preceding the date of the grant of such option; or (iii) the nominal value of the Share.

As at 30 June 2018, the number of shares available for issue under the Share Option Scheme were 107,500,000 ordinary shares, representing 6.7% of the number of issued shares of the Company.

On 31 March 2015, the Company granted shares option to subscribe for 80,000,000 shares with par value of HK\$0.1 each (i.e. 160,000,000 ordinary shares with par value of HK\$0.05 each after the subdivision of each share in the Company of par value of HK\$0.1 each into 2 shares of par value of HK\$0.05 each on 2 July 2015 (the "Share Subdivision")) under the Share Option Scheme of which options to subscribe for 79,840,000 ordinary shares with par value of HK\$0.1 each (i.e. 159,680,000 ordinary shares with par value of HK\$0.05 each after adjustment as a result of the Share Subdivision) were accepted by the grantees. The exercise price of those share options is HK\$0.595 per share with par value of HK\$0.05 each after adjustment as a result of the Share Subdivision. The closing price of the share (with par value of HK\$0.1 each) immediately before the date of grant is HK\$1.16 (i.e. HK\$0.58 after adjustment as a result of the Share Subdivision).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

21. Share Option Scheme (Continued)

Detail of the share option scheme of the Company (Continued)

| Options series | Remained Number | Grant date | Exercisable date | Expiry date | Exercise price HK\$ |
|------------------------------|-----------------|------------|------------------|-------------|---------------------|
| (1) Granted on 31 March 2015 | 32,520,000 | 31/03/2015 | 31/12/2015 | 30/03/2025 | 0.595 |
| (2) Granted on 31 March 2015 | 42,580,000 | 31/03/2015 | 31/12/2016 | 30/03/2025 | 0.595 |
| (3) Granted on 31 March 2015 | 45,740,000 | 31/03/2015 | 31/12/2017 | 30/03/2025 | 0.595 |

The following table discloses the terms, conditions and movements of the Company's share options during the current period:

| Grantee | Exercisable period | Exercisable price per share (adjusted by Share Subdivision on 2 July 2015) (HK\$) | Balance as at 31 December 2017 and 1 January 2018 ('000) | Lapsed during the period ('000) | Exercised during the period ('000) | Cancelled during the period ('000) | Balance as at 30 June 2018 ('000) |
|------------------------|--------------------------------|---|--|---------------------------------|------------------------------------|------------------------------------|-----------------------------------|
| Executive Directors | | | | | | | |
| — Mr. Cai Chenyang | (1) 31 Dec 2015 to 30 Mar 2025 | 0.595 | 21,000 | — | — | — | 21,000 |
| | (2) 31 Dec 2016 to 30 Mar 2025 | 0.595 | 24,960 | — | — | — | 24,960 |
| | (3) 31 Dec 2017 to 30 Mar 2025 | 0.595 | 26,480 | — | — | — | 26,480 |
| — Mr. Cai Haifang | (1) 31 Dec 2015 to 30 Mar 2025 | 0.595 | 1,220 | — | — | — | 1,220 |
| | (2) 31 Dec 2016 to 30 Mar 2025 | 0.595 | 1,600 | — | — | — | 1,600 |
| | (3) 31 Dec 2017 to 30 Mar 2025 | 0.595 | 1,600 | — | — | — | 1,600 |
| Employees of the Group | (1) 31 Dec 2015 to 30 Mar 2025 | 0.595 | 6,840 | — | — | — | 6,840 |
| | (2) 31 Dec 2016 to 30 Mar 2025 | 0.595 | 11,260 | — | — | — | 11,260 |
| | (3) 31 Dec 2017 to 30 Mar 2025 | 0.595 | 12,540 | — | — | — | 12,540 |
| | | | 107,500 | — | — | — | 107,500 |

Notes:

- (a) The share options were vested upon granted and recognised equity-settled share-based payment expense over vesting period.
- (b) The exercise price of the Share Options was subject to adjustments in the case of capitalization of profits or reserve, rights or bonus issues, consolidation, subdivision or reduction of the share capital or other changes in the capital structure of the Group.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

21. Share Option Scheme (Continued)

Fair value of share options and assumptions

The estimate of fair values of the share options granted were calculated by the Valuer using binomial model. The significant assumptions and inputs used in computing the fair value are based on the management's best estimate. The significant inputs into the model were spot share price at grant date, exercise price, expected volatilities, dividend and exercise multiple for directors and selected employee.

The value of the share options calculated using the binomial model is subject to the fundamental limitations of the model and the uncertainties of those significant assumptions and inputs. Any change to those assumptions and inputs may result in changes in the fair value of the share options.

Assumptions and inputs adopted in the valuation are listed below:

| | Start from 31/12/2015 | Start from 31/12/2016 | Start from 31/12/2017 |
|--|--------------------------|--------------------------|--------------------------|
| Fair value at measurement date (HK\$'000) (Note (a)) | 11,058 | 17,312 | 20,750 |
| Share price at grant date 31 March 2015 (HK\$) | 0.580 | 0.580 | 0.580 |
| Exercise price (HK\$) | 0.595 | 0.595 | 0.595 |
| Expected volatility (Note (b)) | 53.16% | 53.16% | 53.16% |
| Dividend yield | Nil | Nil | Nil |
| Risk-free interest rate (Note (c)) | 1.48% | 1.48% | 1.48% |
| Option Life | 10 years | 10 years | 10 years |
| Exercise multiple — Directors (HK\$) (Note (d)) | 2.75 | 2.75 | 2.75 |
| Exercise multiple — Employee (HK\$) (Note (d)) | 2.20 | 2.20 | 2.20 |
| Fair value per option — Directors (HK\$) | 0.3100 | 0.3159 | 0.3241 |
| Fair value per option — Employee (HK\$) | 0.2799 | 0.2923 | 0.3059 |

Notes:

- (a) Fair value of all the share options granted at 31 March 2015 were HK\$49,120,000 equivalent to approximately RMB38,697,000.
- (b) Volatility represents annualized standard deviation of the weekly return of stock price of G.CHE.rm, 600975.ch and 002505.ch.
- (c) Risk free rate represents the yields to maturity of respective HKD Hong Kong Sovereign Curve.
- (d) The exercise multiple defines the early exercise strategy by assuming that early exercise happens when the stock price is the certain multiple of the exercise price.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

22. Capital Commitments

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|---|---|--|
| Capital expenditure contracted but not provide for in respect of acquisition of property, plant and equipment | 76,709 | 73,639 |

23. Operating Lease Commitments

The Group as lessee:

At the end of each reporting date, the Group had commitments for future minimum lease payments in respect of retail outlets and office premises under non-cancellable operating lease which fall due as follows:

| | As at 30 June 2018 RMB'000 (Unaudited) | As at 31 December 2017 RMB'000 (Audited) |
|---|---|--|
| Within one year | 5,132 | 5,534 |
| In the second to fifth years, inclusive | 2,822 | 4,810 |
| After five years | 39,167 | 39,167 |
| | 47,121 | 49,511 |

Operating lease payments represent rentals payable by the Group for certain of its land, office premises and retail outlets. Lease in respect of land are negotiated for a term of over five years with contingent rentals. Lease in respect of office premises are negotiated for a term of two years with fixed rentals. Lease in respect of direct sales outlets are negotiated for a term of one year with fixed rentals.

24. Approval of the Interim Financial Statements

The condensed consolidated interim financial information were approved and authorized for issue by the Board of Directors of the Company on 30 August 2018.



OTHER INFORMATION

Share Charge by the Controlling Shareholder

On 13 October 2016, Zhan Rui and Mr. Cai, the controlling shareholders of the Company, entered into a deed of share charge (the "New Share Charge Deed") in favour of Vandi Investments Limited (the "Investor"), pursuant to which (i) Zhan Rui shall charge by way of fixed charge all its right, title and interest from time to time in and to the 816,000,000 ordinary shares; (ii) Mr. Cai shall, after exercising any of his options to subscribe for shares in the Company and thereby becoming the legal and beneficial owner of the option shares ("Mr. Cai Option Shares") and within the prescribed time as set out in the New Share Charge Deed, transfer all such Mr. Cai Option Shares to Zhan Rui and deposit all such Mr. Cai Option Shares into a designated account maintained with CCB International Securities Limited by Zhan Rui and (iii) Mr. Cai and Zhan Rui have agreed that each such Mr. Cai Option Share shall form part of the properties subject to security constituted by the New Share Charge Deed, as continuing security for the payment and discharge of all obligations at any time due, owing or incurred by the Company, Zhan Rui, Mr. Cai or any of their respective affiliates to the Investor under or pursuant to, among others, the relevant subscription agreement, the bond instrument constituting the Convertible Bond due 2018, the note instrument constituting the Note and the New Share Charge Deed.

Covenants Relating to Specific Performance of the Controlling Shareholder

Pursuant to the bond instruments constituting the Convertible Bond due 2018 and the note instrument constituting the Note, the holders of the Convertible Bond due 2018 and the Note shall have the right to require the Company to redeem the Convertible Bond due 2018 and the Note in full during the continuance of the events of default. The events of default are, among others, the cessation of Mr. Cai Chenyang, an indirect controlling shareholder of the Company and the chairman of the Board, as the single largest shareholder (taking into account his indirect shareholding in the Company) or the controlling shareholder of the Company, the cessation of Mr. Cai Chenyang as the 100% legal and beneficial owner of the issued shares in Zhan Rui, the resignation or cessation of Mr. Cai Chenyang as the chairman of the Board, and Mr. Cai Chenyang defaulting in the performance or observance of any terms of the security documents (including the breach of representations and undertakings of Mr. Cai Chenyang under the New Share Charge Deed as set out in the announcement of the Company dated 28 September 2016) and such default (i) being incapable of remedy or (ii) being a default which is, in the opinion of the bondholders, capable of remedy, remaining unremedied for 14 days after the bondholders have given written notice thereof to the Company.

OTHER INFORMATION (CONTINUED)

Disclosure of Interests

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

As at 30 June 2018, the interests and short positions of the directors and chief executive in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) as recorded in the register of interest required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer as set out in Appendix 10 to the Listing Rules ("Model Code") were as follows:

Long position in the shares and underlying shares of the Company

| Name | Nature of interest | Number of ordinary shares and underlying shares of the Company held | Approximate percentage of the issued shares of the Company |
|---------------------------|---|---|--|
| Mr. Cai Chenyang (Note 1) | Interest of controlled corporation and beneficial owner | 888,440,000 | 55.53% |
| Mr. Cai Haifang (Note 2) | Beneficial owner | 4,420,000 | 0.28% |

Notes:

- (1) Among the 888,440,000 shares/underlying shares held, Mr. Cai Chenyang is deemed to be interested in 816,000,000 shares of the Company, which are held by Zhan Rui Investments Limited ("Zhan Rui"), a corporation controlled by Mr. Cai Chenyang, while he holds derivative interest in 72,440,000 underlying shares as beneficial owner pursuant to physical settled equity derivatives.
- (2) Mr. Cai Haifang held derivatives interest in 4,420,000 underlying shares in the Company as beneficial owner pursuant to physically settled equity derivatives.

Short position in the shares and underlying shares of the Company

| Name | Nature of interest | Number of ordinary shares/underlying shares of the Company held | Approximate percentage of the issued share of the Company |
|---------------------------|------------------------------------|---|---|
| Mr. Cai Chenyang (Note 1) | Interest of controlled corporation | 888,440,000 | 55.53% |

Notes:

- (1) Mr. Cai Chenyang, through Zhan Rui, a corporation controlled by him, is deemed to have a short position of 816,000,000 shares of the Company which has been charged to Vandi Investments Limited and Mr. Cai Chenyang also had a short position of 72,440,000 underlying shares of the Company, which is a short position over unlisted physically settled equity derivatives.



OTHER INFORMATION (CONTINUED)

Interest in associated corporation — long position in the shares of Zhan Rui

| Name | Nature of interest | Number of ordinary shares | Approximate percentage of the issued shares of the associated corporation |
|------------------|--------------------|---------------------------|---|
| Mr. Cai Chenyang | Beneficial owner | 1,000 | 100% |

Save as disclosed above, as at 30 June 2018, none of the directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to 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 Substantial Shareholders in Shares and Underlying Shares of the Company

As at 30 June 2018, the interest or short position of the persons (other than the directors or chief executive of the Company) in shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position in the shares and underlying shares of the Company

| Name | Nature of interest | Number of ordinary Shares/ underlying shares of the Company held | Approximate percentage of the issued share capital of the Company |
|--|---|--|---|
| Zhan Rui (Note 1) | Beneficial owner | 888,440,000 | 55.53% |
| Mr. Sze Ching Lau | Beneficial owner | 100,476,000 | 6.28% |
| Ms. Song Yu Hong | Beneficial owner | 90,256,000 | 5.64% |
| China Construction Bank Corporation (Note 2) | Interest of controlled corporation/ security interest in shares | 1,136,000,000 | 71% |
| Central Huijin Investment Ltd. (Note 3) | Interest of controlled corporation/ security interest in shares | 1,136,000,000 | 71% |

Notes:

- (1) Zhan Rui held 816,000,000 shares in the Company. Zhan Rui was also interested in 72,440,000 underlying shares of the Company pursuant to its interests in unlisted physically settled equity derivatives.
- (2) Such long position includes (a) security interests in 816,000,000 shares of the Company and (b) derivative interests in 320,000,000 underlying shares of the Company held by Vandi Investments Limited, a corporation 100% indirectly controlled by China Construction Bank Corporation, pursuant to unlisted physically settled equity derivatives.
- (3) Such long position includes (a) security interests in 816,000,000 shares of the Company and (b) derivative interests in 320,000,000 underlying shares of the Company held by Vandi Investments Limited, a corporation 100% indirectly controlled by China Construction Bank Corporation (of which Central Huijin Investment Ltd. has 57.11% control), pursuant to unlisted physically settled equity derivatives.

OTHER INFORMATION (CONTINUED)

Short position in the shares and underlying shares of the Company

| Name | Nature of interest | Number of ordinary Shares/underlying shares of the Company held | Approximate percentage of the issued share capital of the Company |
|----------------------------|---------------------------|--|--|
| Zhan Rui (<i>Note 1</i>) | Beneficial owner | 888,440,000 | 55.53% |

Note:

- (1) Zhan Rui is deemed to have a short position of 816,000,000 shares of the Company which has been charged to Vandi Investments Limited. Zhan Rui also had a short position of 72,440,000 underlying shares of the Company, which is a short position over unlisted physically settled equity derivatives.

Save as disclosed above, as at 30 June 2018, no person (other than the directors or chief executive of the Company) had any interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Review Period.

Corporate Governance Practices

The Company has adopted the code provisions of the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Save as disclosed below, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, during the Review Period, complied with all applicable code provisions of the Code.

Code provision A.2.1 of the Code stipulates that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Mr. Cai Chenyang is the chairman and the chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals who meet regularly to discuss issues affecting the operation of the Company. The Board believes that this structure, in the period of rapid business development of the Company, is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Cai Chenyang and believes that having Mr. Cai Chenyang performing the roles of chairman and chief executive officer is beneficial to the business prospect of the Group.



OTHER INFORMATION (CONTINUED)

Compliance with the Model Code

The Company has adopted the code provisions of the Model Code as its code of conduct regarding directors' securities transactions. Having made specific enquiry with all the directors of the Company, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions for the six months ended 30 June 2018.

Audit Committee

The audit committee of the Board (the "Audit Committee") comprises three independent non-executive directors, namely Mr. Wu Shiming, Mr. Cai Zirong and Mr. Wang Aiguo. The Audit Committee is chaired by Mr. Wu Shiming.

The Audit Committee had reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018, including the accounting principles adopted by the Group, and took the view that the Company was in full compliance with all applicable accounting standards and regulations and adequate disclosures had been made.

Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme") which had become effective upon the commencement of dealings of the shares of the Company (the "Shares") on the Stock Exchange on 13 July 2012. On 31 March 2015, the Company granted shares option to subscribe for 80,000,000 shares with par value of HK\$0.1 each (i.e. 160,000,000 shares with par value of HK\$0.05 each after the subdivision of each share in the Company of par value of HK\$0.1 each into 2 shares of par value of HK\$0.05 each on 2 July 2015 (the "Share Subdivision") under the Share Option Scheme of which options to subscribe for 79,840,000 shares with par value of HK\$0.1 each (i.e. 159,680,000 shares with par value of HK\$0.05 each after adjustment as a result of the Share Subdivision) were accepted by the grantees. The exercise price of those share options is HK\$0.595 per share with par value of HK\$0.05 each after adjustment as a result of the Share Subdivision. The closing price of the share (with par value of HK\$0.1 each) immediately before the date of grant is HK\$1.16 (i.e. HK\$0.58 after adjustment as a result of the Share Subdivision).

OTHER INFORMATION (CONTINUED)

The following table discloses the terms, conditions and movements of the Company's share options during the period under review:

| Grantee | Date of grant | Exercise period | Exercise price per share (adjusted by Share Subdivision on 2 July 2015) (HK\$) | Balance as at 31 December 2017 and 1 January 2018 (‘000) | Lapsed/ cancelled during the period (‘000) | Exercised during the period (‘000) | Balance as at 30 June 2018 (‘000) |
|----------------------------|---------------|--------------------------------|--|--|--|---|--|
| Executive Directors | | | | | | | |
| — Mr. Cai Chenyang | 31 March 2015 | (1) 31 Dec 2015 to 30 Mar 2025 | 0.595 | 21,000 | — | — | 21,000 |
| | 31 March 2015 | (1) 31 Dec 2016 to 30 Mar 2025 | 0.595 | 24,960 | — | — | 24,960 |
| | 31 March 2015 | (1) 31 Dec 2017 to 30 Mar 2025 | 0.595 | 26,480 | — | — | 26,480 |
| — Mr. Cai Haifang | 31 March 2015 | (1) 31 Dec 2015 to 30 Mar 2025 | 0.595 | 1,220 | — | — | 1,220 |
| | 31 March 2015 | (1) 31 Dec 2016 to 30 Mar 2025 | 0.595 | 1,600 | — | — | 1,600 |
| | 31 March 2015 | (1) 31 Dec 2017 to 30 Mar 2025 | 0.595 | 1,600 | — | — | 1,600 |
| Employees of the Group | 31 March 2015 | (1) 31 Dec 2015 to 30 Mar 2025 | 0.595 | 6,840 | — | — | 6,840 |
| | 31 March 2015 | (1) 31 Dec 2016 to 30 Mar 2025 | 0.595 | 11,260 | — | — | 11,260 |
| | 31 March 2015 | (1) 31 Dec 2017 to 30 Mar 2025 | 0.595 | 12,540 | — | — | 12,540 |
| | | | | 107,500 | — | — | 107,500 |

Notes:

- (a) No share options were granted during the period under review.
- (b) Share options granted are vested at the commencement of the relevant exercise period of such share options.
- (c) The exercise price of the share options was subject to adjustments in the case of capitalization of profits or reserve, rights or bonus issues, consolidation, subdivision or reduction of the share capital or other changes in the capital structure of the Group.

Set out below is a summary of the Share Option Scheme:

Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to recognise and motivate the contribution of employees (which include full time and part time employee, executive and non-executive director and proposed executive and non-executive director) of the Group and other person(s) who may make a contribution to the Group and to provide incentives and help the Company retain its existing employees and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.



OTHER INFORMATION (CONTINUED)

Participants of the Share Option Scheme

The participants of the Share Option Scheme (the "Participant") to whom options may be granted by the Board shall include any full time or part time employee (including any executive and non-executive director and proposed executive and non-executive director), advisor, consultant, agent, contractor, client and supplier who in the sole discretion of the Board has contributed or is expected to contribute to the Group.

Total number of Shares available for issue under the Share Option Scheme

The total number of Shares which may be issued upon exercise of all options which may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of Shares in issue as at the date of annual general meeting held on 29 June 2015, at which the scheme mandate limit has been refreshed and renewed by an ordinary resolution passed by the Shareholders, i.e. 160,000,000 shares with a par value of HK\$0.05 each after the share subdivision. In addition, the maximum number of Shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of Shares in issue from time to time.

Maximum entitlement of each Participant

The maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant to each Participant under the Share Option Scheme shall not exceed 1% of the Shares for the time being in issue. Any further grant of options in excess of this limit is subject to shareholders' approval in a general meeting with the grantee and his associates abstaining from voting. Options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Period within which the securities must be taken up under an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not be more than 10 years from the date on which an option is granted to any Participant and the Board may provide restrictions on the exercise of an option during the period an option may be exercised.

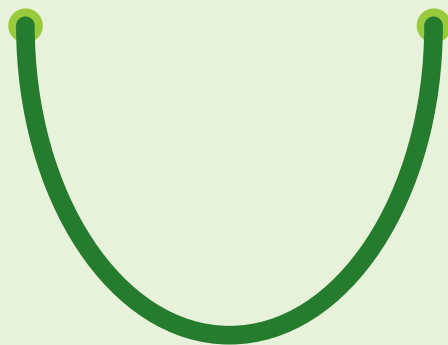
OTHER INFORMATION (CONTINUED)

Payment on acceptance of option offer

To accept an option, the grantee of the option shall remit in favour of the Company of HK\$1.00 as consideration for the grant and return to the Company the duplicate of the letter granting the option comprising the acceptance of the option duly signed by the grantee before 5:00 p.m. on the 20th business day following the date of the said grant letter.

Basis of determining the exercise price

The exercise price for the share under the Share Option Scheme will be a price determined by the Board at its absolute discretion at the time of the grant of the relevant option and notified to each grantee but in any case will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange for the five trading days immediately preceding the date of the grant; or (iii) the nominal value of a share.



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