五谷磨房

Natural Food International Holding Limited

五谷磨房食品國際控股有限公司

(Registered by way of continuation in the Cayman Islands with limited liability)

Stock code : 1837

Annual Report 2018

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. GUI Changqing
Mr. ZHANG Zejun

Non-executive Director

Mr. NG Benjamin Jin-Ping

Independent Non-executive Directors

Mr. ZHANG Senquan
Mr. HU Peng
Mr. OUYANG Liangyi

AUDIT COMMITTEE

Mr. ZHANG Senquan (Chairman)
Mr. HU Peng
Mr. OUYANG Liangyi

REMUNERATION COMMITTEE

Mr. HU Peng (Chairman)
Mr. ZHANG Senquan
Mr. OUYANG Liangyi

NOMINATION COMMITTEE

Mr. OUYANG Liangyi (Chairman)
Ms. GUI Changqing
Mr. HU Peng

COMPANY SECRETARY

Mr. CHAN Yik Pun, HKICPA

AUTHORISED REPRESENTATIVES

Mr. ZHANG Zejun
Mr. CHAN Yik Pun, HKICPA

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 01837

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

13/F, East, Fiyta Technology Building
GaoXin South 1 Road
Nanshan District
Shenzhen, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

33rd Floor, Shui On Centre
6-8 Harbour Road, Wanchai
Hong Kong

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

COMPANY'S WEBSITE

http://www.szwgmf.com

AUDITORS

Ernst & Young
Certified Public Accountants

Corporate Information

HONG KONG LEGAL ADVISOR

Sidley Austin

COMPLIANCE ADVISOR

CMBC International Capital Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO BOX 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Merchants Bank
Ping An Bank
Bank of Communications

Chairman's Statement

Dear Shareholders,

In 2018, the inherent stability of China's economy has been strengthened, which has continued the long-term positive fundamental and laid a solid foundation for the sustainable development of the health food industry. Consumers have shifted from focusing on price to focusing on variety, quality and brand, and the characteristics of healthy consumption, quality consumption and green consumption have become more prominent. Residents' unremitting pursuit of high quality and beautiful life has promoted the continuous and rapid expansion of China's consumer market. At the same time, the supply of domestic consumer goods and life-related services has become increasingly abundant, the level and quality thereof have been continuously improved, and the types and technological innovations have become increasingly abundant, forming growing push for consumer demand.

At the same time, the consumer market has maintained steady and rapid development, and new engine with new industries, new formats and new models as the core has been continuously enhanced. Focusing on diversified and personalized consumer demand, the retail industry returns to the retail nature that meets the needs of residents' better life, focusing on the development of quality retail, accelerating innovation and transformation, and the industry is full of vitality. In addition, traditional retail is deeply integrated with new technologies such as the internet, big data, and artificial intelligence, constantly adjusting the structure of goods and industry. Sales of department stores, supermarkets, shopping malls, and convenience stores are growing. The pace of transformation and upgrading of physical retail enterprises is accelerating, and the operating efficiency of the industry continues to be improved. E-commerce has accelerated its penetration into the retail industry. The e-commerce platforms have taken the initiative to engage in physical retail enterprises. The proportion of online retail sales of physical goods to the total retail sales of consumer goods has continued to increase.

The ever-increasing per capita disposable income of residents, consumers' increasing attention to product quality and awareness of healthy lifestyles continue to drive the rapid development of natural health food industry.

Benefiting from this, Natural Food International Holding Limited (the "Company", and together with its subsidiaries, the "Group") has seized industry opportunities and achieved gratifying results. Here, on behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present the annual results of Natural Food for the year ended 31 December 2018: in 2018, the Group achieved a revenue of RMB1,818.1 million, up 15.4% than 2017; adjusted net profit of RMB213 million, up 13.0% yoy. Gross profit margin and adjusted net profit continued to grow, stable and remaining high. In 2018, the Group recorded gross profit margin 76.5% and adjusted net profit 11.7%.

Chairman's Statement

PRODUCTS UPDATE IS ACCELERATING WITH HUGE NEW PRODUCT CONTRIBUTION

In 2018, the Group launched 42 new products with a strong R&D capability and leading market position. The Stock Keeping Unit ("SKU") of the Group exceeded 100. We started with the concept of "homology of medicine and food" and integrated it into the modern nutritional science food processing technology, in order to provide consumers with a wide variety of natural health foods. In 2018, we shifted from "mass nutrition" to "precise nutrition", and launched "Six Precise Formula-based Powders (精准六方)" and other natural health foods that cater to different ages and health needs, so as to attract specific consumer groups including women, teenagers and the elderly. At the same time, the Group has carefully developed a series of products that appeal to consumers in different consumer channels, and launched a variety of online special products including Chia Seed Cereal Oatmeal and Black Wolfberry Tea Bag, thus to meet the taste and needs of the younger generation.

The acceleration of products update has increased the proportion of contribution from new products to revenue. In 2018, the sales revenues of new products in various sales channels (ie. offline channels, e-commerce platforms and WeChat member stores) were 19.7%, 27.9% and 31.6% respectively. In addition, in order to ensure the scientific and nutritional balance of the products, the Group and the China Nutrition Society jointly launched the "Natural Food Grain Nutrition Research Center" in 2018 to jointly build a trustworthy natural health food with expert team.

MARKET PENETRATION CONTINUES TO INCREASE, CHANNEL REVENUES ARE GROWING WELL

The Group's various sales channels are highly integrated to jointly create a "new retail" model, in order to complement the channel advantages. In terms of offline channels, as of 31 December 2018, the Group operated 3,895 direct sales counters in supermarkets of 461 cities across the country. While giving full play to the advantages of sales channels, the Company promoted brand awareness, reached consumers and encouraged new customers try and repurchase. In 2018, the Group strengthened the strategic cooperation upgrade of key customer channels. 851 new counters were opened throughout the year, and the penetration rate of stores continued to increase steadily. In addition, the Group promoted the reform of store management, gradually implemented the internal partner mechanism, thus revitalizing the vitality of offline business operations.

The Group's online channels continued to strength, maintained rapid growth, and contributed outstanding results. The revenue of e-commerce platforms represented by Tmall, JD and Vipshop increased significantly by 60.1% to RMB239.2 million, among which in Alibaba, during the "Double Eleven" event, we were ranked as the No. 1 brand in prepared food sales in 2018; revenue of WeChat member store had a strong growth, up 63.1% year-on-year to RMB100.2 million. The Group believes that penetration through online channels will drive sales growth and increase brand awareness to create synergies with other sales and distribution networks.

Chairman's Statement

POWERFUL PROPRIETARY TECHNOLOGY PLATFORM ENHANCES SUPERIOR OPERATION EFFICIENCY

Our proprietary technology platform seamlessly connects our management, employees, customers, suppliers and other partners to support business growth. We have 48 technical experts dedicated to strengthening our technical capabilities in big data analytics and mobile technology. The Company's proprietary technology platform provides support under different functions to the management and employees through a variety of applications, such as ERP systems, BI systems, billing and payment settlement, and consumer data tracking & analysis.

Taking the ERP system as an example, the Group has developed two mobile applications with different functions: "Marketing Manager Application" and "Business Manager Application". The salesperson uses the Marketing Manager Application to track the ongoing sales activities of the direct counters and collect various data, including pricing, discounts, average customer spending, sales target completion, repurchase rate, peak hour sales revenue, inventory levels, and more. Data collected from the Marketing Manager Application is transmitted daily to the headquarters for further analysis.

In addition, the Group uses the BI system to analyze customer behavior and form customer portraits, so as to better understand customer needs. The BI system also enables the Group to integrate and analyze consumer and supplier data through seamless integration of front-end, mid-end and back-end operations, maximizing operational efficiency, identifying customer preferences, and serving consumers on the sales platform with fresher and more attractive products.

The strong technology platform has and will continue to drive the Company's operation performance, and support the rapid and successful expansion of the Company's sales network in China. Thanks to our effective membership management measures, the number of registered members of the Group exceeded 20.5 million in 2018, of which the number of WeChat members increased from 5.27 million in 2017 to approximately 7 million.

INTERNATIONAL HIGH STANDARD SAFETY PRODUCTION AND SUPPLY CHAIN

We firmly believe that food safety and quality are of paramount importance to the industry. Fresh and high-quality food ingredients not only ensure the taste of the food, but also form the cornerstone of a trusted food brand. In 2018, the Company obtained the FSSC22000 food safety certification, which proves that the Company's quality control is in line with best international standards. The Company procures high-quality ingredients on a global scale to ensure product quality, and to ensure safe production and high quality standards through comprehensive production facilities and optimized production processes, while reducing time to market.

The Company currently has two production and processing bases with a utilization rate of about 90%. In order to meet the increasing demand for natural foods in China, the Group started construction of a new manufacturing base in Nansha District, Guangzhou, China in March 2018, in order to build a new R&D base for various products. The new production base has a total gross floor area of approximately 60,000 square meters. After the completion of the new manufacturing base, the Group's production capacity is expected to increase to 40,000 tons per year.

Chairman's Statement

SUCCESSFULLY LANDED IN HONG KONG'S CAPITAL MARKET, ENTER A NEW DEVELOPMENT PHASE

After more than 10 years of hard work, Natural Food has won the favor of consumers and become China's most well-known natural health food brand, while ranking first in terms of brand awareness and customer satisfaction. On 12 December 2018, Natural Food successfully landed in the Hong Kong capital market, and won the favor and support of many international and domestic long-term institutional investment.

The Group believes that becoming a public company will help to enhance brand awareness, influence and reputation, while providing better platform support for the Company's future business development.

Meanwhile, in order to appreciate employees who have been working side by side with the Company for a long time, the Company is setting up an effective employee equity incentive plan as planned to stimulate employee enthusiasm and increase loyalty to the Company.

FUTURE PROSPECTS

Looking forward to 2019, we believe that the reform of the retail industry will continue, and the consumption channels, consumption demand and consumption scenarios will continue to be fragmented. Natural Food has the confidence to quickly understand the changing consumer appeals, and it is fully prepared to meet and match these needs quickly to occupy the favorable position for the rapid development of the industry.

In the future, Natural Food will continue to expand its offline direct counter network while actively maintaining the rapid growth of online channels. We will continue to establish contacts with consumers to gain insight into their consumer appeals, behaviors and habits, and provide guidance and strategies for the Company to continue to introduce new products and strengthen brand marketing. We will also seize the opportunity to enter more consumer scenarios and strengthen the Group's brand leadership.

Finally, on behalf of the Board and the entire management, I sincerely appreciate consumers of Natural Food for their long-term trust and support. Thanks to all shareholders, investors and the community for their continued support and trust, and present sincere gratitude for hard work of all employees of Natural Food.

Gui Changqing
Chairman

29 March 2019

Management Discussion and Analysis

OVERALL BUSINESS OVERVIEW

The Group is a well-recognised and the second largest natural health food company in China as measured by retail sales value in 2017, according to a Frost & Sullivan report. The year of 2018 was a crucial year to the business development of the Group. The Group had made a great effort and taken numerous initiatives in ensuring the success of the completion of the Company's public offering and the listing of its shares (the "**Listing**") on the Main Board ("**Main Board**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 December 2018 (the "**Listing Date**") while continued to expand its business and dedicate to build China's most valuable natural health food brand. The Listing represents a significant milestone in the development of the Group. Becoming a listed company enables the Group to achieve further business advancement which not only strengthens its capital base, but also enhances its corporate image and brand recognition.

In 2018, the Group continued its efforts to achieve satisfactory revenue target. Revenue from the sales of the Group's products increased by approximately 15.4% from RMB1,576.1 million in 2017 to RMB1,818.1 million in 2018, primarily attributable to (i) an increase in revenue generated from the online channels, as a result of the increased marketing expenditure on e-commerce platforms (including the active participation in the platforms' promotional events) and increased resources devoted to the self-operated WeChat member store and (ii) an increase in sales volume attributable to the growing popularity of the Group's products.

PRODUCTS

Leveraging its research and development capabilities and market leading position to grow its business and broaden its customer base, the Group has expanded its product offerings and launched 42 popular natural healthy food products, including "Six Precise Formula-based Powders (精准六方)" that cater to specific needs of different consumer groups, such as pregnant women, the elderly and teenagers. In observation of increasing health consciousness of the customers and the rapid growing natural health food market, in September 2018, the Group started to offer certain combination of products in smaller packages at lower prices in order to attract new customers who may be interested in the Group's natural health food products, which the Company anticipates will broaden the reach of its products and further expand its customer base. The increase in product iterations has led to a rapid increase in the proportion of new product revenue contribution. In 2018, revenue generated from the sales of new products contributed to approximately 19.7%, 27.9% and 31.6% of the revenue by different sales channels, namely, offline channels, E-commerce platforms and WeChat member store, respectively. As a result, the Group had attracted more than 20.5 million registered members as at 31 December 2018.

Management Discussion and Analysis

Over the course of more than 10 years, the Group has built an extensive sales network across China, including multiple offline and online sales channels. As at 31 December 2018, the distribution platform consisted of (i) an offline network of 3,895 concessionary counters in supermarkets in 461 cities across China, representing a year-on-year growth of 5.6% in terms of number of concessionary counters in supermarkets, and (ii) online channels, including major e-commerce platforms, such as Tmall, JD.com, Vipshop.com and social media platform, namely, the WeChat member stores. The following map shows the geographic distribution of the concessionary counters across China as at 31 December 2018:

Management Discussion and Analysis

OFFLINE SALES NETWORK EXPANSION

The Group's offline channels currently comprise concessionary counters in supermarkets. In 2018, as a result of the Group's proactive adjustment of its business strategies and evaluation of the business operations and performance of the existing concessionary counters, the Group newly opened 851 concessionary counters and closed 646 concessionary counters.

The table below sets forth the total number of the concessionary counters, the number of newly opened counters and closed counters for the year indicated:

	Year ended 31 December	
	2018	**2017**
At the beginning of the year	**3,690**	2,969
Add: newly opened counters	**851**	1,011
Less: closed counters	**646**	290
Total concessionary counters	**3,895**	**3,690**

The table below sets forth the breakdown of number of concessionary counters within each sales region, each expressed as an absolute amount and as a percentage of the total number of concessionary counters, for the year ended 31 December 2017 and 2018 respectively:

	As at 31 December			
	2018		2017	
		%		%
Eastern China [(1)]	**1,226**	**31.5%**	1,135	30.8%
Southern China [(2)]	**826**	**21.2%**	817	22.1%
Northern China [(3)]	**806**	**20.7%**	820	22.2%
Southwest China [(4)]	**634**	**16.3%**	564	15.3%
Northwest China [(5)]	**403**	**10.3%**	354	9.6%
Total number of counters	**3,895**	**100%**	3,690	100.0%

Management Discussion and Analysis

Notes:

(1) Eastern China refers to Anhui, Jiangsu, Zhejiang, Henan, Hubei, Hunan and Jiangxi Provinces and Shanghai.

(2) Southern China refers to Fujian, Guangdong, Guangxi and Hainan Provinces.

(3) Northern China refers to Heilongjiang, Jilin, Liaoning, Hebel and Shandong Provinces and Beijing and Tianjin.

(4) Southwest China refers to Guizhou, Sichuan and Yunan Provinces and Chongqing.

(5) Northwest China refers to Gansu, Ningxia, Qinghai, Shanxi and Shaanxi Provinces and Inner Mongolia and Xinjiang Autonomous Regions.

In July 2018, the Group has upgraded approximately 250 existing concessionary counters to a new type of integrated health food stores, which are designed to sell selected health food products. The upgrade of the concessionary counters helped further diversify the product offerings, improve the in-store consumer experience and satisfy additional demands from customers, which in turn strategically improved the sales revenue and profitability of the Group.

The Group launched its “sales partnership programme” in September 2018 in certain concessionary counters, which is in expectation to provide further incentives to the sales personnel and in turn increase its sales revenue.

ONLINE PLATFORMS

The Group continued to expand its online presence, and had experience a significant growth in 2018. Revenue generated from online channels, including both e-commerce platforms and WeChat member stores, represented an increase in revenue of approximately 66.4% and 58.4%, respectively, as compared with the year ended 31 December 2017.

As the Group’s first online platform, Tmall flagship store remained a significant revenue contributor to the Group for the year ended 31 December 2018, where the Group recorded revenue from the Tmall flagship store of RMB173.0 million, representing an increase of 60.2% as compared with the year ended 31 December 2017. In 2018, the Group offered 46 SKUs on the Tmall flagship store. The Group has achieved the largest GMV for Alibaba’s Singles’ Day (雙十一) promotion among instant mixture products in 2018.

The Group also continued to increase the resources devoted to its self-operated WeChat member store through enhancing the membership services and interactions with its fans through its WeChat member store to further promote customer loyalty and encourage customers to make more purchases. As at 31 December 2018, the Group had approximately seven million followers on its WeChat official account. In 2018, the Group had an overall 33,813,345 readership of articles published to its WeChat official account, with 197 articles published.

Management Discussion and Analysis

PRODUCTION CAPACITY

In view of the increasing demand of natural food in China and the overloaded capacity of its production facilities, in March 2018, the Group commenced construction of the first phase of its new manufacturing facility in Nansha County, Guangzhou, China for a manufacturing facility for various kinds of products. The new production facility has a total gross floor of approximately 60,000 square metres. After the completion of the new manufacturing facility, the Group's estimated maximum production capacity will increase to 40,000 tons per year.

RESEARCH AND DEVELOPMENT

In the area of research and development, the Group continued to follow the market-oriented approach and is currently in the process of broadening its product offerings to include grain-based meal replacements, grain-based health snacks and grain-related health supplements. In addition to its in-house product development efforts, the Group continued to pursue cooperation with selected universities and research institutions to enhance its capability for innovation. In particular. the Group jointly launched "Wugu Mofang Grain Nutrition Research Centre" (五谷磨房穀物營養研究中心) with Chinese Nutrition Society (中國營養學會) in 2018 to conduct further research on nutirents of natural grains. As at 31 December 2018, the Group had completed the development of over 150 new products that are available for mass production.

OUTLOOK

Benefiting from the growing purchasing power and rising health awareness of Chinese consumers, the Group remains full of confidence about its future. The Group will continue to maintain and strengthen its leading market position as a well-recognised natural health food company in China, thus the Group continues to pursue the following strategies:

- Further enhance its integrated distribution platform and optimise its channel mix;
- Continue to expand and diversify its product portfolio while upholding its core values of "Naturally Made, No Additives Needed";
- Further strengthen its brand equity to increase market share;
- Further enhance operational efficiency and optimise technology infrastructure; and
- Recruit, train and incentivise talent.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group sells its products through an extensive network of offline concessionary counters as well as online channels, including major e-commerce platforms and self-operated WeChat member store. The following table sets out a breakdown of the Group's revenue by sales channel, each expressed in the absolute amount and as a percentage to its total revenue, for the years indicate:

	For the year ended 31 December			
	2018		2017	
	RMB'000	**%**	*RMB'000*	%
Offline channels	**1,478,666**	**81.3**	1,369,163	86.9
Online channels	**339,400**	**18.7**	206,982	13.1
E-commerce platforms	**239,191**	**13.2**	143,715	9.1
WeChat member store	**100,209**	**5.5**	63,267	4.0
Total	**1,818,066**	**100.0**	1,576,145	100.0

For the year ended 31 December 2018, absolute amounts of revenue generated from sales through its offline and online channels continued to increase as compared to the year ended 31 December 2017. As a percentage to the total revenue, revenues generated from sales through the offline channels decreased from 86.9% in 2017 to 81.3% in 2018, while revenue generated from sales through online channels increased from 13.1% in 2017 to 18.7% in 2018.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by approximately 14.2% from RMB374.3 million for the year ended 31 December 2017 to RMB427.4 million for the year ended 31 December 2018. which was mainly attributable to (i) an increase in raw material costs primarily due to the increases in the procurement price of the raw materials, (ii) an increase in packaging material costs primarily due to the increases in the online sales where additional packaging materials were applied as compared with the offline sales, and (iii) an increase in direct labour cost primarily due to an increase in the sales volume in line with the business growth. Gross profit for the Group increased from approximately RMB1,201.8 million for the year ended 31 December 2017 to approximately RMB1,390.7 million for the year ended 31 December 2018. The gross profit margin remained stable at 76.3% and 76.5% for the year ended 31 December 2017 and 2018.

Management Discussion and Analysis

Other Income and Gains

Other income and gains of the Group increased by RMB6.4 million from approximately RMB15.6 million for the year ended 31 December 2017 to approximately RMB22.0 million for the year ended 31 December 2018, which was mainly attributable to the increase in government grant of approximately RMB5.7 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consist of commission expense, labour service expense of salesmen, salary and employee benefit expenses, sales promotion expenses, transportation expenses and others. The selling and distribution expenses increased from approximately RMB926.1 million for the year ended 31 December 2017 to approximately RMB1,070.9 million for the year ended 31 December 2018, which was mainly attributable to (i) an increase in commission expenses primarily due to the increases in the sales volume and (ii) an increase in labour service expense of salesmen primarily due to the expansion of the Group's sales network, which lead to an increase in the number of sales personnel as well as the increased salary increment.

Administrative Expenses

The Group's administrative expenses primarily comprise salary and employee benefit expenses, other taxes and fees, office expenses, intermediary service fee, travel and communication expense, depreciation and amortisation, listing expenses and others. The administrative expenses increased from approximately RMB85.6 million for the year ended 31 December 2017 to approximately RMB133.2 million for the year ended 31 December 2018. The increase was mainly due to (i) the expenses incurred in connection with the Global Offering, including intermediary service fee and the Listing expenses and (ii) an increase in salary and employee benefit expenses as a result of an increase in the number of administrative staff in line with the business growth.

Impairment Losses on Financial Assets

Impairment loss on financial assets increased to approximately RMB3.2 million for the year ended 31 December 2018 from approximately RMB0.3 million for the year ended 31 December 2017, which was mainly attributable to the adoption of HKFRS 9.

Management Discussion and Analysis

Other Expenses

Other expenses of the Group increased to approximately RMB1.5 million for the year ended 31 December 2018 from approximately RMB0.9 million for the year ended 31 December 2017 primarily due to the increase in the loss on disposal of property, plant and equipment.

Finance Costs

For the year ended 31 December 2018, the Group's finance costs increased from approximately RMB0.2 million for the year ended 31 December 2017 to approximately RMB0.4 million primarily due to the increase on interest-bearing borrowing.

Loss on Fair Value Changes of Convertible and Redeemable Preferred Shares

In 2017 and 2018, the Group's loss on fair value changes of convertible and redeemable preferred shares amounted to RMB2.2 million and RMB75.7 million, respectively. The increase was due to the recognition of loss on fair value changes of convertible and redeemable preferred shares (which was calculated primarily with reference to the offer price of the Company's shares as at the Listing Date).

Profit before Tax

As a result of the foregoing, the profit before tax of the Group decreased by 36.9% from approximately RMB202.1 million for the year ended 31 December 2017 to approximately RMB127.6 million for the year ended 31 December 2018.

Income Tax Expense

The Group's income tax expense increased by 36.4% from RMB16.4 million for the year ended 31 December 2017 to RMB22.4 million for the year ended 31 December 2018, primarily due to the listing expense incurred and the loss on fair value changes of convertible and redeemable preferred shares. For the same reason, the Group's effective tax rate increased from 8.1% for the year ended 31 December 2017 to 17.5% for the year ended 31 December 2018. The Group's effective tax rates for both years were lower than the PRC statutory income tax rate of 25%. This lower effective tax rate is attributable to China's enterprise income tax exemption for income from preliminarily-processed agricultural products, which are applicable to certain of the Group's products.

Management Discussion and Analysis

Profit for the Year

Profit of the Group for the year ended 31 December 2018 decreased by 43.3% from approximately RMB185.7 million for the year ended 31 December 2017 to approximately RMB105.2 million.

Adjusted Net Profit

The adjusted net profit represents profit for the year excluding the effects of the expenses incurred in connection with the Global Offering of approximately RMB32.1 million (2017: RMB0.6 million), and loss on the fair value changes of convertible and redeemable preferred shares of approximately RMB75.7 million for the year ended 31 December 2018 (2017: RMB2.2 million). The term adjusted net profit is not defined under HKFRSs. As a non-HKFRS measure, it is presented because the management believes that adjusted net profit helps identify underlying trends in the Group's business that could otherwise be distorted by the effect of the expenses that it includes in income from operations and net profit through eliminating potential impacts of certain unusual and non-recurring items that the management does not consider to be indicative of its operating performance. The Company believes that adjusted net profit provides useful information about its operating results, enhances the overall understanding of its past performance and future prospects and allows for greater visibility with respect to key metrics used by the management in its financial and operational decision-making.

As a measure of the operating performance, the most directly comparable HKFRSs measure to adjusted net profit is profit for the year. The following table reconciles profit for the year under HKFRSs to adjusted net profit for the years indicated:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit for the year	**105,239**	185,699
Adjustments for:		
Loss on fair value changes of convertible and redeemable preferred shares	**75,706**	2,196
Expenses incurred in connection with the Global Offering	**32,056**	566
Adjusted net profit	**213,001**	188,461

Adjusted net profit of the Group for the year ended 31 December 2018 increased by 13.0% from approximately RMB188.5 million for the year ended 31 December 2017 to approximately RMB213.0 million.

Management Discussion and Analysis

FINANCIAL RESOURCES REVIEW

Working Capital and Financial Resources

	As at 31 December 2018 (RMB million)	As at 31 December 2017 (RMB million)
Trade and bills receivables	**239.6**	178.5
Trade payables	**72.1**	72.3
Inventories	**122.3**	81.6
Trade receivables turnover days[1]	**42**	36
Trade payables turnover days[2]	**62**	59
Inventory turnover days[3]	**87**	75

Notes:

(1) Trade receivables turnover days = 365 days x (average balance of trade receivables at the beginning and at the end of the relevant period)/revenue in the reporting period.

(2) Trade payables turnover days = 365 days x (average balance of the trade payables at the beginning and at the end of the relevant period)/cost of sales in the reporting period.

(3) Inventory turnover days = 365 days x (average balance of inventory at the beginning and at the end of the relevant period)/cost of sales in the reporting period.

The increase in trade and bills receivables was primarily attributable to an increase in the sales of the products, partially offset by an increase in provision for impairment of trade and bills receivables amounted to approximately RMB5.6 million, which was attributable to the adoption of HKFRS 9. The increase in trade receivables turnover days were mainly attributable to an extended credit period provided by the Group to certain customers.

The decrease in trade payables was primarily attributable to the early settlement of trade payables made by the Group to certain suppliers immediate before 31 December 2018. The trade payables turnover days remained stable.

The increase in inventories was mainly attributable to an increase in finished goods in line with the sales growth as a result of the expanded sales network and in anticipation of the increasing sales volume during the festive season. The increase in inventory turnover days is primarily attributable to the additional finished goods kept by the Group for the festive season in early 2019.

Management Discussion and Analysis

Liquidity and Financial Resources

As at 31 December 2018, the Group's cash and cash equivalents amounted to RMB604.9 million, representing an increase of approximately 166.3% from RMB227.1 million as at 31 December 2017.

The Group's primary uses of cash were payment for suppliers and funding of working capital, daily operating expenses and construction of the new manufacturing facility in Nansha County, Guangzhou. The Group financed its liquidity requirements through cash flows generated from its operating activities and financing activities.

As at 31 December 2018, the Group's interest-bearing borrowing was approximately RMB70.1 million (31 December 2017: nil).

Net cash flows from operating activities were RMB133.7 million in 2018, as compared with net cash flows from operating activities of RMB168.8 million in 2017. Net cash used in from investing activities were RMB107.4 million in 2018, as compared with net cash flows from investing activities of RMB34.7 million in 2017. Net cash flows from financing activities were RMB350.8 million in 2018, as compared with net cash used in financing activities of RMB55.3 million in 2017.

As at 31 December 2018, the Group had net current asset of RMB808.2 million, as compared with net current asset of RMB177.2 million as at 31 December 2017.

Capital Commitments

As at 31 December 2018, the Group had contracted but not provided for capital commitments of approximately RMB104.0 million, which were primarily relating to the purchase of intangible assets, plant and equipment to be used for the construction of the new manufacturing facility in Nansha County, Guangzhou, as compared with the total amount of capital expenditures contracted for but not yet incurred of RMB30.1 million as at 31 December 2017.

Currency Exposure and Management

The Group operates its business in China and conducts domestic business in RMB. Substantially all of the Group's assets are denominated in RMB, and the Group mainly incurs cost in HK$ and RMB. The Group is exposed to foreign exchange risk with respect mainly to HK$ which may affect the Group's performance. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of HK$ and will closely monitor its impact on the performance of the Group to see if any hedging policy is necessary. The Group currently does not have any foreign currency hedging policy.

Management Discussion and Analysis

Contingent Liabilities

As at 31 December 2018, the Group had no contingent liabilities.

Pledge of Assets

As at 31 December 2018, the Group did not pledge any assets.

Gearing Ratio

As at 31 December 2018, the Group's gearing ratio (calculated by dividing total debt (including amounts due to directors and related parties, interest-bearing borrowing, convertible and redeemable preferred shares and dividend payable) by total assets as of the end of each year) was approximately 5.0% (31 December 2017: 30.8%).

Employees and Remuneration Policy

As at 31 December 2018, the Group had 1,007 employees, as compared with 934 employees as at 31 December 2017. For the year ended 31 December 2018, costs of employees, excluding Directors' emoluments, amounted to a total of RMB190.9 million, representing an increase of approximately 15.0% from RMB166.0 million in 2017. The Group will regularly review its remuneration policy and the benefits granted to its employees with reference to market practice and the performance of individual employees.

The Group's emolument policies of the employees are formulated by the Board with reference to their respective qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for executives of similar position. The emoluments of the Directors are decided by the Board and the remuneration committee of the Company (the "**Remuneration Committee**"), who are authorised by the shareholders of the Company in the annual general meeting (the "**AGM**"), having regard to the Group's operating results, individual performance and comparable market statistics.

The Group has also adopted share option scheme for the purpose of providing incentives to Directors, eligible employees and third party service providers. Further details in relation to the scheme will be set out in the "Directors' Report" section of the annual report of the Company for the year ended 31 December 2018.

Directors and Senior Management

DIRECTORS

Executive Directors

Ms. GUI Changqing (桂常青), aged 46, is the Chairman of the Board and an executive Director of the Company. Ms. Gui was appointed as a Director on 30 November 2009. Ms. Gui also serves as a director and/or the general manager of each of the wholly-owned subsidiaries of the Group, namely Natural Food International Group Limited (五谷磨房食品集團有限公司) ("**Natural Food HK**"), Natural Food Online Limited (天然食品線上有限公司), Fuya Foods Technology (Shenzhen) Company Limited (馥雅食品科技(深圳)有限公司) ("**Shenzhen Fuya**") and Natural Food (Guangzhou) Co., Ltd. (五谷磨房(廣州)食品有限責任公司) ("**Guangzhou Natural Food**"). Ms. Gui is responsible for formulating and overseeing the overall development strategies and business plans of the Group and has continued to provide guidance on the range and variety of products offered by the Group since its establishment. Ms. Gui graduated from Hubei Institute of Industry (湖北工學院, now known as Hubei University of Technology (湖北工業大學)) with a bachelor's degree in industrial design in June 1995. Ms. Gui further completed her studies in master of business administration at the Research Institute of Tsinghua University in Shenzhen (深圳清華大學研究院) in December 2015. Ms. Gui is the wife of Mr. Zhang Zejun, the Founder, the Chief Executive Officer and an executive Director of the Company.

Mr. ZHANG Zejun (張澤軍), aged 45, is the Founder, a Controlling Shareholder, the Chief Executive Officer of the Group and an executive Director of the Company. Mr. Zhang was appointed as a Director on 29 January 2010. Mr. Zhang is also the general manager of each of the major wholly-owned operating subsidiaries of the Group, namely Shenzhen Changqing Food Tech Co., Ltd. (深圳常青食品科技有限公司) and Shenzhen Natural Food Co., Ltd. (深圳天然食品貿易有限公司), and a supervisor of another wholly-owned subsidiary of the Group, Shenzhen Xiangya Foods Company Limited (深圳市香雅食品有限公司) ("**Shenzhen Xiangya**"). Mr. Zhang has over 10 years of experiences in the natural health food industry. Mr. Zhang founded the business in 2007 and has been the key driver of the business strategies and achievements to date. Mr. Zhang is primarily responsible for implementing and overseeing the overall business development, management and operations of the Group. Mr. Zhang completed his studies in master of business administration at the Research Institute of Tsinghua University in Shenzhen (深圳清華大學研究院) in December 2015. Mr. Zhang is the husband of Ms. Gui Changqing, the Chairman and an executive Director of our Company.

Directors and Senior Management

Non-executive Director

Mr. NG Benjamin Jin-ping (吳俊平) (formerly known as Ngo Benjamin Chanh Dao), aged 58, is a non-executive Director responsible for providing strategic advice and guidance on the business development of the Group. Mr. Ng has joined the Group since January 2010 as a Director nominated by SAIF Partners III L.P. and was designated as a non-executive Director in June 2018. Mr. Ng has over 12 years of experience in the fund management and investment in Asia. Mr. Ng was a partner from June 2006 to October 2012 and the general partner from November 2012 to December 2014 of SAIF Partners, and has become the venture partner of SAIF Partners since January 2015 responsible for deal sourcing and business development. Prior to joining SAIF Partners, Mr. Ng was the business development manager of Cisco Systems (思科公司), an information technology support services provider, for the Asia Pacific region from March 1998 to May 2006. Mr. Ng obtained a bachelor's degree in Electrical Engineering from The University of New South Wales in Australia in April 1985. He then obtained a master's degree in Business Administration from Macquarie University in Australia in April 1995. Mr. Ng served as a non-executive director of Risecomm Group Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1679) from February 2016 to May 2018 and he was a non-executive director of Ozner Water International Holding Limited, the shares of which are listed on the Stock Exchange (stock code: 2014) from January 2014 to March 2017. He has been a director of Alchip Technologies, Limited, the shares of which are listed on the Taiwan Stock Exchange (stock code: 3661) since April 27, 2007.

Independent non-executive Directors

Mr. ZHANG Senquan (張森泉) (formerly known as Zhang Min), aged 42, was appointed as the independent non-executive Director on 19 November 2018, and is responsible for supervising and providing independent advice and judgment to the Board. Mr. Zhang currently acts as the managing director of Southwest Securities International Securities Limited, the shares of which are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 812) and the Chief Executive Officer of Zhong Rui Capital (Hong Kong) Limited, a consultancy company. He also currently serves as an independent non-executive director of Jiande International Holdings Limited (stock code: 865) and Beijing Digital Telecom Co., Ltd. (stock code: 6188), the shares of both companies are listed on the Stock Exchange. Mr. Zhang previously served as the independent director of Topchoice Medical Investment Co. Inc., the shares of which are listed on the Shanghai Stock Exchange (stock code: 600763SH), from December 2014 to March 2017, and the independent non-executive director of Casablanca Group Limited, the shares of which are listed on the Stock Exchange (stock code: 2223), from April 2015 to April 2018. He was the chief financial officer and joint company secretary of Huazhong In-Vehicle Holdings Company Limited, the shares of which are listed on the Stock Exchange (stock code: 6830) from May 2014 to July 2015. He served as head of the Strategic Development Department of Goodbaby International Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1086), from March 2013 to April 2014. He has more than 10 years of professional experience in accounting and auditing, and worked at Deloitte Touche Tohmatsu, KPMG and Ernst & Young serving several positions from audit staff to audit partner from 1999 to 2012. Mr. Zhang received his bachelor's degree from Fudan University (復旦大學) in July 1999. He is a member of Hong Kong Institute of Certified Public Accountants, China Institute of Certified Public Accountants and American Institute of Certified Public Accountants.

Directors and Senior Management

Mr. HU Peng (胡芃), aged 43, was appointed as the independent non-executive Director on 19 November 2018, and is responsible for supervising and providing independent advice and judgment to the Board. Mr. Hu served as the Head of Equity Capital Markets (ECM), a Managing Director and a management committee member of Huatai Financial Holdings (Hong Kong) Ltd., a wholly-owned subsidiary of Huatai Securities Co., Ltd. from October 2015 to June 2018, the shares of which are listed on the Stock Exchange (stock code: 6886) ("**Huatai**"). Prior to joining Huatai in October 2015, Mr. Hu worked in the Investment Banking Division of UBS AG from July 2010 to September 2015 and of Citigroup Global Market Asia Limited from February 2007 to July 2010. Before his career in Citigroup, Mr. Hu was primarily engaged in theoretical and empirical research in the areas of credit risk, close-end fund, Chinese capital markets and restructuring of state-owned enterprise, with extensive experience in both strategic analysis and marketing consulting. Mr. Hu was approved as a responsible officer under the SFO and was licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO during the time working at Huatai, Investment Banking Division of UBS AG and Citigroup Global Market Asia Limited. Mr. Hu obtained each his Master of Science degree in Operations Research and Management Science, Masters by Research in Business Studies and PhD degree from the University of Edinburgh in the United Kingdom in December 1998, July 2000 and June 2008, respectively.

Mr. OUYANG Liangyi (歐陽良宜), aged 41, was appointed as the independent non-executive Director on 19 November 2018, and is responsible for supervising and providing independent advice and judgment to the Board. Mr. Ouyang currently serves as an Associate Professor of Finance at Peking University HSBC Business School since August 2013 and has become the Associate Dean in March 2013 and subsequently the Deputy Dean in November 2017. He was a lecturer and an Associate Professor of the School of Economics at Peking University from September 2004 to August 2009 and from then till July 2013, respectively, with a focus on private equity and derivatives. Mr. Ouyang obtained his bachelor's degree in economics from Peking University in July 1999 and PhD in Finance from The University of Hong Kong in December 2005. Mr. Ouyang has been a Chartered Financial Analyst since 2006.

SENIOR MANAGEMENT

Mr. PENG Dubiao (彭督彪), aged 44, is a General Manager of Offline Sales of the Group. Mr. Peng joined the Group in September 2011 and is responsible for formulating and implementing offline sales strategies and channel management and management of the sales team. He also serves as the general manager of the wholly-owned subsidiary of the Group, Shenzhen Xiangya. Mr. Peng has 20 years of experience in the food and beverage industry. Prior to joining the Group, Mr. Peng worked at a number of private food and beverage companies in China, including Po-Li Food Industry (Kunshan) Co., Ltd. (波力食品工業(昆山)有限公司), Shanghai Zhenghe Food Co., Ltd. (上海正禾食品有限公司) and Fujian Fuma Food Group Co. Ltd. (福建福馬咪咪食品集團有限公司) during May 1998 to August 2011 where he primarily worked in and/or headed the sales and marketing department of these food companies. Mr. Peng obtained his online bachelor's degree in international trade from the University of International Business and Economics (對外經貿大學) in January 2010 in the PRC. Mr. Peng further completed his studies in master of business administration at the Research Institute of Tsinghua University in Shenzhen (深圳清華大學研究院) in December 2015.

Directors and Senior Management

Mr. CHEN Guanghua (陳光華), aged 44, is a General Manager of Digital Marketing and Online Sales of the Group. Mr. Chen joined the Group in July 2015 and is responsible for formulating and implementing digital marketing strategies and management of online channels and members relationship. He also serves as the general manager of the wholly-owned subsidiary of the Group, Shenzhen Fuya. Mr. Chen has 20 years of working experience in in the field of information technology. He worked with Biostime International Holdings Limited ("**Biostime**"), the shares of which are listed on the Stock Exchange (stock code: 1112) from March 2008 to June 2015, where he last held the position of Chief Operating Officer in charge of the Mama100 Membership Center of Biostime. From January 1999 to February 2008, he was employed by Guangzhou Tianjian Computer System Engineering Co., Ltd. (廣州天劍計算機系統工程有限公司) and assumed positions including software engineer, CRM department manager and deputy general manager, respectively. Prior to that, he worked with Guangdong Fotao Group Co., Ltd. (廣東佛陶集團股份有限公司) from July 1997 to January 1999. Mr. Chen won the "Science and Technology Award of Foshan" (佛山市科學技術進步獎) awarded by Foshan Municipal Government in June 2006 and the "Science and Technology Award of Guangzhou" (廣州市科學技術獎) awarded by Guangzhou Municipal Government in October 2006. In July 1997, Mr. Chen graduated from Tongji University (同濟大學) and obtained a bachelor's degree in silicate science and engineering. In December 2004, he obtained a master's degree in computer technology from South China University of Technology (華南理工大學). In September 2013, Mr. Chen completed his EMBA at China Europe International Business School (中歐國際工商學院) and received an EMBA degree. Mr. Chen is a qualified computer applications software engineer accredited by Guangzhou Municipal Human Resources Bureau in China.

Mr. CAO Weijie (曹偉傑), aged 42, is a General Manager of Marketing of the Group. Mr. Cao joined the Group in March 2018 and is responsible for formulating and implementing marketing strategies and brand management and market promotion. He also serves as the general manager of the wholly-owned subsidiary, Natural Food HK. Mr. Cao has around 20 years of experience working with companies in the consumable industry. Prior to joining the Group, Mr. Cao served at Mondel ē z Shanghai Food Co., Ltd. (億滋食品企業管理(上海)有限公司) (formerly known as Kraft Foods China) and Danone Food Trading (China) Co., Ltd. (達能食品貿易(中國)有限公司) from January 2005 to February 2018. Prior to that, Mr. Cao worked at Kimberly-Clark (China) Co., Ltd. from June 2004 to January 2005 and Johnson & Johnson (China) Ltd. from July 1999 to June 2004. Mr. Cao graduated from Fudan University (復旦大學) in the PRC with a bachelor's degree in macromolecular science in July 1999.

Mr. XIONG Xinsheng (熊鑫升), aged 56, is a General Manager of Finance of the Group. Mr. Xiong joined the Group in August 2015 and is responsible for financial planning, accounting and audit, financial and treasury management and internal controls. Prior to joining the Group, Mr. Xiong served as a civil servant in the taxation bureau of Xianfeng and Enshi, Hubei Province, PRC from September 1989 to August 2015. Mr. Xiong completed his studies in business management from Hubei Radio & TV University (湖北廣播電視大學) in July 1989. Mr. Xiong also completed his distance undergraduate education in laws at the Party School of the Central Committee of CPC (中共中央黨校) in December 2001. Mr. Xiong completed his studies in master of business administration at the Research Institute of Tsinghua University in Shenzhen (深圳清華大學研究院) in December 2015.

Directors and Senior Management

Ms. LIU Wenying (劉文英), aged 48, is a General Manager of Production of the Group. Ms. Liu joined the Group in April 2014 and is responsible for planning, organizing and overseeing the procurement, production and quality control functions. She also serves as the general manager of the wholly-owned subsidiaries, namely Hubei Fuya Food Science and Technology Co., Ltd. (湖北馥雅食品科技有限公司) and Guangzhou Natural Food. Prior to joining the Group, Ms. Liu worked at Guangzhou Zhenkungfu Fast Food Chain Management Co., Ltd. (廣州真功夫快餐連鎖管理有限公司) from August 1998 to April 2014. Ms. Liu obtained her bachelor's degree in food science and agricultural engineering from Beijing Agricultural University (北京農業大學) in July 1994. Ms. Liu further completed her studies in master of business administration at the Research Institute of Tsinghua University in Shenzhen (深圳清華大學研究院) in December 2015.

COMPANY SECRETARY

Mr. CHAN Yik Pun (陳奕斌), aged 37, is the company secretary of the Company and was appointed on 1 June 2018. Mr. Chan has accumulated over 10 years of accounting and auditing experience from working in various international accounting firms, including Grant Thornton and Ernst & Young, as well as various companies listed on the Main Board of the Stock Exchange, including Regal Hotels International Limited (stock code: 78), Chaoyue Group Limited (stock code: 147) and Zall Group Limited (stock code: 2098), as a key financial officer. Mr. Chan obtained his Bachelor of Business (Accounting) from Monash University, Melbourne, Australia in December 2004. He is a member of Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

The Company is committed to fulfilling its responsibilities to its shareholders (the "**Shareholders**") and protecting and enhancing Shareholders' value through good corporate governance.

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures, internal control and risk management procedures of the Group so as to achieve effective accountability.

CORPORATE GOVERNANCE PRACTICES

As the Company's ordinary shares (the "**Shares**") in issue were listed on the Stock Exchange on 12 December 2018, the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") was not applicable to the Company for the period from 1 January 2018 to 11 December 2018, being the period before the Listing Date. The Company has adopted and complied with all applicable code provisions as set out in the CG Code during the period from the Listing Date to 31 December 2018 (the "**Period**").

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules as its own code of conduct governing the securities transactions by the Directors. Following a specific enquiry made by the Company on each of the Directors, all Directors have confirmed that they had complied with the Model Code during the Period.

The Board has also adopted the Model Code as guidelines for its relevant employees who are likely to be in possession of inside information of the Company in respect of their dealings in the securities of the Company. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

Corporate Governance Report

BOARD OF DIRECTORS

Responsibilities

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's values and standards and ensures that the requisite financial and human resources support is in place for the Group to achieve its objectives. The functions performed by the Board include but are not limited to convening general meetings, implementing the resolutions passed at the general meetings, determining the business and investment plans of the Group, formulating the annual financial budget and financial statements of the Group, and formulating the proposals for dividend distributions as well as exercising other powers, functions and duties as conferred by the Company's articles of association (the "**Articles of Association**"). The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference. The responsibilities of these Board committees include monitoring the Group's operational and financial performance, and ensuring that appropriate internal control and risk management are in place. The Board may from time to time delegate certain functions to management of the Group if and when considered appropriate. The management is mainly responsible for the execution of the business plans, strategies and policies adopted by the Board and assigned to it from time to time.

The Directors have full access to information of the Group and the management has an obligation to supply the Directors with adequate information in a timely manner to enable the Directors to perform their responsibilities. The Directors are entitled to seek independent professional advice in appropriate circumstances at the Company's expense.

Composition

The Board currently comprises six members, consisting of two executive Directors, one non-executive Director and three independent non-executive Directors (the "**INEDs**"), as follows:

Executive Directors
Ms. GUI Changqing *(Chairman)*
Mr. ZHANG Zejun *(Chief Executive Officer)*

Non-executive Director
Mr. NG Benjamin Jin-Ping

Independent non-executive Directors
Mr. ZHANG Senquan
Mr. HU Peng
Mr. OUYANG Liangyi

Corporate Governance Report

The biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 20 to 24 of this annual report.

None of the members of the Board is related to one another, save and except that Ms. GUI Changqing, the Chairman and Executive Director of the Company, is the spouse of Mr. ZHANG Zejun, the Chief Executive Officer and Executive Director of the Company.

Proper insurance coverage in respect of legal actions against the Directors' liability has been arranged by the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The INEDs have brought in a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in the Board meetings and serving on various Board committees, all INEDs will continue to make various contributions to the Company.

Throughout the Period, the Company had three INEDs, which was in compliance with the requirement of the Listing Rules that the number of INEDs must represent at least one-third of the Board members, and that at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received an annual confirmation of independence in writing from each of the INEDs pursuant to Rule 3.13 of the Listing Rules. Based on such confirmation, the Company considers that all the INEDs are independent and have met the independence guidelines as set out in Rule 3.13 of the Listing Rules.

Paragraph A.2.7 of the CG Code requires that the Chairman should at least annually hold meetings with the independent non-executive Directors without the presence of the other Directors. For the period from the Listing Date and up to the date of this annual report, the Chairman held one meeting with the independent non-executive Directors on 28 March 2019 without the presence of any other Director. Going forward, the Chairman will continue to ensure compliance with this code provision.

DIRECTORS' INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT

Upon appointment of director(s), each new director receives an induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors, on an ongoing basis, will receive updates on the relevant laws, rules and regulations. The Company encourages the Directors to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, Hong Kong Companies Ordinance and corporate governance practices so that they can continuously acquire their relevant knowledge and skills.

Corporate Governance Report

During the year ended 31 December 2018, the Company organised training on duties and responsibilities of directors and seminar on updated laws and regulations for the Directors. Pursuant to code provision A.6.5 of the CG Code. The Company has also provided reading materials to the Directors to develop and refresh their professional knowledge.

Furthermore, the Company has arranged site visit for the Directors to enhance their understanding and knowledge of the Group's business operation.

MEETINGS OF THE BOARD AND DIRECTORS' ATTENDANCE RECORDS

During the Period, no board meeting was held. However, subsequent to the end of the report period and up to the date of the report, a Board Meeting of the Company was held on 28 March 2019 to approve, amongst other things, the Group's final results for the year ended 31 December 2018. Details of the attendance of the Directors to the Board meetings subsequent to the end of 2018 and up to the date of this report are as follows:

Name of Directors	Attendance/Number of Meetings
Executive Directors	1/1
Ms. GUI Changqing *(Chairman)*	1/1
Mr. ZHANG Zejun	1/1
Non-executive Director	1/1
Mr. NG Benjamin Jin-Ping	1/1
Independent non-executive Directors	1/1
Mr. ZHANG Senquan	1/1
Mr. HU Peng	1/1
Mr. OUYANG Liangyi	1/1

Going forward, regular meeting of the Board is scheduled four times a year at approximately quarterly intervals with notice given to the Directors at least 14 days in advance. For all other Board meetings, notice will be given in a reasonable time in advance. The Directors are allowed to include any matter in the agenda that is required for discussion and resolution at the meeting. To enable the Directors to be properly briefed on issues arising at each of the Board meetings and to make informed decisions, an agenda and the accompanying Board papers will be sent to all Directors at least three days before the intended date of the Board meeting, or such other period as agreed. The company secretary of the Company (the "**Company Secretary**") is responsible for keeping all Board meetings' minutes. Draft and final versions of the minutes will be circulated to the Directors for comments and record respectively within a reasonable time after each meeting and the final version is open for the Directors' inspection.

Corporate Governance Report

Save for the family relationships disclosed in the Board of Directors and Senior Management of this annual report, the Directors do not have any material financial, business or other relationships among members of the Board. Should a Director has a potential conflict of interest in a matter being considered in the Board Meeting, he or she will abstain from voting. The INEDs with no conflict of interest will be present at meetings dealing with such conflict of interest issues.

BOARD DIVERSITY POLICY

During the year ended 31 December 2018, the Board has adopted a policy of the Board's diversity and discussed all measurable objectives set for implementing the same.

The Company recognises and embraces the benefits of a diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of Chairman and Chief Executive Officer are held by Ms. GUI Changqing and Mr. ZHANG Zejun, respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing. Therefore, the Company has complied with paragraph A.2.1 of the CG Code, which stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request. A list of the chairman and members of each Board committee is set out under "Corporate Information" on pages 2 to 3 of this annual report. The Board committees are provided with sufficient resources to discharge their duties.

Corporate Governance Report

Audit Committee

The Company established an audit committee (the "**Audit Committee**") on 19 November 2018 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, namely ZHANG Senquan, HU Peng and OUYANG Liangyi, our independent non-executive Directors. ZHANG Senquan has been appointed as the Chairman of the Audit Committee.

The principal roles and functions of the Audit Committee include but not limited to:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and to deal with any questions of their resignation or dismissal;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and discussing with the auditors the nature and scope of the audit and reporting obligations before the audit commences;
- developing and implementing policy on engaging external auditors to supply non-audit services and reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- monitoring integrity of the Company's financial statements and annual report and accounts, half-year report and, reviewing significant financial reporting judgements contained in them.
- reviewing the Company's financial controls, risk management and internal control systems;
- discussing the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems;
- considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- ensuring coordination between the internal and external auditors, and that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- reviewing the Group's financial and accounting policies and practices;
- reviewing the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;

Corporate Governance Report

- ensuring that the Board will provide a timely response to the issues raised in the external auditors' management letter; and

- considering other matters as referred to the Committee by the Board.

The Audit Committee has established and oversees a whistleblowing policy. In line with that commitment, the Company expects and encourages its employees, customers, suppliers and other stakeholders who have concerns about any suspected misconduct or malpractice within the Company to come forward and voice those concerns. All whistleblowing reports are investigated to the fullest extent possible and reported to the Audit Committee.

During the Period, no Audit Committee Meeting was held. However, subsequent to the end of the Period and up to the date of this annual report, an Audit committee meeting was held on 28 March 2019 to review the Group's final results for the year ended 31 December 2018 before their submission to the Board, significant issues on the financial reporting and compliance procedures, the effectiveness of the internal control and risk management systems and the appointment of external auditors.

The attendance record of each Director at the said Audit Committee meeting of the Company held is set out in the table below:

Name of Directors	**Attendance/Number of Meetings**
Mr. ZHANG Senquan *(Chairman)*	1/1
Mr. HU Peng	1/1
Mr. OUYANG Liangyi	1/1

Remuneration Committee

The Company established a remuneration committee (the "**Remuneration Committee**")on 19 November 2018 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee has three members, namely ZHANG Senquan, HU Peng and OUYANG Liangyi, our independent non-executive Directors. HU Peng has been appointed as the Chairman of the Remuneration Committee.

Corporate Governance Report

The principal roles and functions of the Remuneration Committee include but not limited to:

- making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- making recommendations to the Board on the remuneration of the Non-executive Directors;
- considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- reviewing and approving compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- ensuring that no Director or any of his associates is involved in deciding his own remuneration; and
- considering all other matters as referred to the Committee by the Board.

During the Period, no Remuneration Committee meeting was held. However, subsequent to the end of the Period and up to the date of this annual report, a Remuneration Committee meeting was held on 28 March 2019 to review and make recommendations to the Board on the remuneration packages of the Directors.

The attendance record of each Director at the said Remuneration Committee meeting of the Company held is set out in the table below:

Name of Directors	**Attendance/Number of Meetings**
Mr. HU Peng *(Chairman)*	1/1
Mr. ZHANG Senquan	1/1
Mr. OUYANG Liangyi	1/1

Corporate Governance Report

Nomination Committee

The Company established a nomination committee (the "**Nomination Committee**") on 19 November 2018 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of two independent non-executive Directors, being OUYANG Liangyi and HU Peng and one executive Director, being GUI Changqing. OUYANG Liangyi has been appointed as the Chairman of the Nomination Committee.

The principal roles and functions of the Nomination Committee include but not limited to:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- assessing the independence of Independent Non-executive Directors; and
- making recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive.

During the Period, no Nomination Committee meeting was held. However, subsequent to the end of the Period and up to the date of this annual report, a Nomination Committee Meeting was held on 28 March 2019 to review the structure, size and composition of the Board and have concluded that members of the Board have possessed the expertise and independence to carry out the Board's functions and responsibilities and assess the independence of Independent Non-executive Director.

The attendance record of each Director at the said Nomination Committee meeting of the Company held is set out in the table below:

Name of Directors	**Attendance/Number of Meetings**
Mr. OUYANG Liangyi *(Chairman)*	1/1
Ms. GUI Changqing	1/1
Mr. HU Peng	1/1

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out in the Corporate Governance Functions of the Board adopted by the Company including:

- to develop and review the Company's policies, procedures and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review the effectiveness of the risk management and internal control system on an ongoing basis and to remedy material internal control weaknesses;
- to review and monitor the Company's policies, procedures and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- to review the adequacy of resources, staff competency, training programs and budget of the Company's accounting, internal audit and financial reporting functions; and
- to review the Company's compliance with CG Code and disclosure in the corporate governance report in the annual report of the Company.

The Board may delegate the corporate governance duties to a committee of the Board.

The Board's annual review of the Company's corporate governance practices for the year ended 31 December 2018 has covered the aforesaid matters.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the Executive Directors has entered into a service contract/signed an appointment letter with the Company and is appointment for a specific term of three years unless terminated by not less than two months' notice in writing served by either the Executive Director or the Company.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company and is appointed for a specific term of three years with effect from the respective date stated therein.

There was no service contract entered into/appointment letter signed by the Company and any Directors to be re-elected in the forthcoming annual general meeting which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Corporate Governance Report

Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and shall be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election.

All the Directors, including INEDs, are subject to retirement by rotation and will be eligible for re-election in accordance with the Articles of Association. At each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at the AGM at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of Directors to retire by rotation) any Director who wishes to retire and does not offer himself for re-election. Any further Directors so to retire shall be those who have been the longest in office since their last re-election or appointment and so that as between the persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors of the Company for the year ended 31 December 2018 are set out in note 8 to the financial statements.

Pursuant to paragraph B.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors) whose particulars are contained in the section headed "Directors and Senior Management" in this annual report for the year ended 31 December 2018 by band is set out below:

Remuneration band (in HK$)	Number of individual
Nil to 1,000,000	2
1,000,001 to 1,500,000	3

Corporate Governance Report

INDEPENDENT AUDITORS' REMUNERATION

For the year ended 31 December 2018, Ernst & Young was engaged as the Group's independent auditor. Apart from the provision of annual audit services, Ernst & Young provided the audit and non-audit services in connection with the Listing.

The remuneration paid/payable to the independent auditors in respect of the year ended 31 December 2018 is set out below:

Service Category	Fees Paid/Payable (RMB)
Audit Services for 2018 annual audit	1,510,000
Audit Services for listing	2,264,000
Non-audit Services	998,000
Total	4,772,000

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018. The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out as informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on the Company's performance, positions and prospects. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

In addition, Ernst & Young has stated in the independent auditor's report its reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2018.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks the Company is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Board acknowledges that such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Company has reviewed the need for an internal audit function since the Listing Date. Internal audit function of the Company has been carried out under the leadership of the Board and the Audit Committee.

Corporate Governance Report

The key features of the Group's risk management and internal control systems include the following:

- an organized structure with clearly defined and distinct scope of authority and responsibilities;
- a comprehensive financial accounting system to provide for various performance measurement indicators and to ensure compliance with relevant rules;
- annual plans prepared by senior management of the Company on financial reporting, operations and compliance with reference to significant potential risks;
- strict prohibition of unauthorized expenditures;
- guidelines on the dissemination of confidential and sensitive information;
- specific approval from Executive Director/responsible senior executive of the Company prior to commitment in all material matters;
- appropriate policy to ensure the effective use of resources, the qualifications and experiences possessed by the staff members who are responsible for the Group's accounting and financial reporting functions, and sufficient training provided to the staff members;
- management's review and evaluation on the internal control procedures and monitoring of risk factors on a regular basis; and
- report to the Audit Committee about the findings on identified risks and measures to address such risks.

Procedures have been put in place to safeguard the Group's assets against unauthorised use or disposal, to ensure proper accounting records are kept so that reliable financial information can be provided when required, and to ensure compliance with all applicable laws and regulations. These procedures have been based on industry norms and are designed to provide reasonable assurance and protection against errors, losses and fraud.

During the year ended 31 December 2018, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance as well as risk management. The Board considers that the Group's risk management and internal control are adequate and effective. The Board expects that a review of the risk management and internal control systems will be performed annually.

Corporate Governance Report

DISCLOSURE OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong and the Listing Rules and the overriding principle that inside information should be announced promptly. The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;
- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and the Company's website;
- the Group has strictly prohibited unauthorised use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the Executive Directors, the Company Secretary and the Financial Controller of the Company are authorised to communicate with parties outside the Group.

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring that reliable and relevant flow of information is maintained amongst members of the Board and that all procedures have been adhered to in accordance with applicable laws, rules and regulations. All Directors have access to the advice and services of the Company Secretary on corporate governance and board practices and matters.

Mr. CHAN Yik Pun was appointed as the Company Secretary of the Company on 1 June 2018. The company secretary's biography is set out in the section headed "Directors and Senior Management" on pages 24 of this annual report. During 2018, the Company Secretary undertook over 15 hours of professional training to update his skills and knowledge.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Director. Except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules. Poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Corporate Governance Report

Procedures for Putting Forward Proposals at Shareholders' Meetings

There are no provisions allowing Shareholders to make proposals or move resolutions at the AGMs under the memorandum of association of the Company and the Articles of Association (the "**M&A**") or the laws of the Cayman Islands. Shareholders who wish to make proposals or move a resolution may, however, convene an extraordinary general meeting (the "**EGM**") in accordance with the "Procedures for Shareholders to convene an EGM" set out below.

Procedures for Shareholders to Convene an EGM

According to Article 12 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to require an EGM to be called by the Board or the Company Secretary for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

Eligible Shareholders who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned (the "**Requisitionist(s)**") at the principal place of business of the Company in Hong Kong (presently at 33rd Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong) for the attention of the Company Secretary. The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM and the proposed agenda.

Following receipt of the Requisition, the identity and shareholding of the Eligible Shareholder(s) will be verified with the Company's branch share registrar in Hong Kong. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an EGM and/or include the proposal(s) made or the resolution(s) proposed by the Requisitionist(s) at the EGM within 2 months after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of the outcome and accordingly, the Board will not call for an EGM nor include the proposal(s) made or the resolution(s) proposed by the Requisitionist(s) at the EGM.

If within 21 days of the deposit of the Requisition the Board fails to proceed to convene such meeting, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Corporate Governance Report

Procedures for Shareholders to Send Enquires to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them by post to the principal place of business of the Company in Hong Kong (presently at 33rd Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong) or by email to ir@szwgmf.com, for the attention of the Company Secretary.

Upon receipt of the enquiries, the Company Secretary will forward the communications relating to:

1. the matters within the Board's purview to the Executive Directors;

2. the matters within a Board committee's area of responsibility to the Chairman of the appropriate committee; and

3. ordinary business matters, such as suggestions, enquiries and client complaints to the appropriate management of the Company.

DIVIDEND POLICY

The Company has adopted a general annual dividend policy of declaring and paying dividends on an annual basis of approximately 20% to 40% of the total net profit attributable to the Group for any particular year. The declaration of dividends is subject to the discretion of the Directors, and, if necessary, the approval of our Shareholders. The amount of dividends actually declared and paid will also depend upon the Group's earnings and cash flow, financial condition, capital requirements, investment requirements and any other conditions the Directors may deem relevant. Any declaration and payment, as well as the amount, of any dividend will also be subject to the Articles of Association and the Cayman Companies Law. The Company may distribute dividends by way of cash or by other means that we consider appropriate.

COMPLIANCE ADVISER

The Company appointed CMBC International Capital Limited as the compliance adviser with effect from 12 December 2018 to provide guidance and opinion to the Company in respect of the compliance with the Listing Rules and other regulations and practice governing listed issuers in Hong Kong.

Corporate Governance Report

INVESTOR RELATIONS AND COMMUNICATION WITH THE SHAREHOLDERS

The Company has adopted a Shareholders' communication policy with the objective of ensuring that the Shareholders will have equal and timely access to information about the Company in order to enable the Shareholders to exercise their rights in an informed manner and allow them to engage actively with the Company.

Information will be communicated to the Shareholders through the Company's financial reports, AGMs and other EGMs that may be convened as well as all the published disclosures submitted to the Stock Exchange. To promote effective communication, the Company maintains a website at www.szwgmf.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

The 2019 annual general meeting (the "**AGM**") of the Company will be held on 31 May 2019 (Friday). The notice of AGM was sent to the shareholders at least 20 clear business days before the AGM.

CONSTITUTIONAL DOCUMENTS

Except for the adoption of amended and restated M&A by the Company to comply with the applicable legal and regulatory requirements (including the Listing Rules) on 19 November 2018 for the purposes of the Listing, which took effect from the Listing Date, there were no changes in the constitutional documents of the Company during the Year.

The M&A is available on the respective websites of the Stock Exchange and the Company.

Report of the Board of Directors

The Board is pleased to present their report and the audited financial statements for the year ended 31 December 2018 of the Group.

INITIAL PUBLIC OFFERING

The Company was registered by way of continuation in the Cayman Islands with limited liability on 11 May 2018. The Company listed its Shares on the Main Board of the Stock Exchange on the Listing Date. The Company issued 421 million Shares at an offer price of HK$1.62 per Share.

PRINCIPAL PLACE OF BUSINESS

The registered office of the Company is situated in the Cayman Islands and its operation headquarter is located at Shenzhen Guangdong Province, PRC.

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Company is an investment holding company. The Group's operations are substantially conducted in the PRC through its direct or indirect subsidiaries. The principal activities and other details of subsidiaries of the Company are set out in note 1 to the financial statements.

BUSINESS REVIEW

Discussion and analysis of the business of the Group for the year ended 31 December 2018 are set out in the section headed "Management Discussion and Analysis" on pages 8 to 19 of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2018 and the Group's financial position as at 31 December 2018 are set out in the Financial Statements on pages 64 to 67 of this annual report.

FINAL DIVIDEND

The Company has adopted a general annual dividend policy of declaring and paying dividends on an annual basis of approximately 20% to 40% of the total net profit attributable to the Group for any particular year. The declaration of dividends is subject to the discretion of the Directors, and, if necessary, the approval of our Shareholders. The amount of dividends actually declared and paid will also depend upon the Group's earnings and cash flow, financial condition, capital requirements, investment requirements and any other conditions the Directors may deem relevant. Any declaration and payment, as well as the amount, of any dividend will also be subject to the Articles of Association and the Cayman Companies Law. The Company may distribute dividends by way of cash or by other means that we consider appropriate.

Report of the Board of Directors

The Board has the discretion to declare dividends to the shareholders of the Company, subject to the Company's articles of association and all applicable laws and regulations and taking into consideration factors set out below:

(1) financial results;

(2) cash flow situation;

(3) business conditions and strategies;

(4) future operations and earnings;

(5) capital requirements and expenditure plans;

(6) interests of shareholders;

(7) taxation consideration;

(8) any contractual, statutory and regulatory restrictions on payment of dividends; and

(9) any other factors that the Board may consider relevant.

At the Board meeting held on 28 March 2019, the Board was resolved to declare the payment of a final dividend of RMB0.02 per ordinary share representing a total distribution of approximately RMB44,420,000 be paid on 28 June 2019 (Friday) to shareholders of the Company whose name appear on the Company's register of members on 12 June 2019 (Wednesday). The proposed final dividend is subject to approval by the shareholders at the forthcoming 2019 AGM.

Dividends payable to holders of shares will be paid in Hong Kong dollar. The dividends payable in Hong Kong dollar will be calculated basing on the middle exchange rate of Hong Kong dollar to Renminbi published by the People's Bank of China on the dividends declaration date. During the day (i.e., 28 March 2019), the middle exchange rate of Renminbi to Hong Kong dollar was HK$1.00 = RMB0.85689. Accordingly, the amount of the final dividends for each share of the Company for the year ended 31 December 2018 is HK$0.0233.

ANNUAL GENERAL MEETING

The 2019 AGM will be held on Friday, 31 May 2019. Notice of the 2019 AGM will be published and issued to Shareholders in due course.

Report of the Board of Directors

CLOSURE OF REGISTER OF MEMBERS

For the purposes of ascertaining the members' eligibility to attend and vote at the annual general meeting and determining the members' entitlement to the proposed final dividend for the year ended 31 December, 2018, the Company's register of members will be closed during the following periods respectively:

(A) For ascertaining eligibility to attend and vote at the annual general meeting:

- Latest time to lodge transfers documents for registration 4:30 p.m. on 27 May 2019 (Monday)
- Closure of register of members 28 May 2019 (Tuesday) to 31 May 2019 (Friday)

(B) For ascertaining entitlement to the proposed final dividend:

- Latest time to lodge transfers documents for registration 4:30 p.m. on 6 June 2019 (Thursday)
- Closure of register of members 7 June 2019 (Friday) to 12 June 2019 (Wednesday)

To be eligible to attend and vote at the annual general meeting and to qualify for the proposed final dividend, all duly stamped instruments of transfers, accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than the respective latest time as stated above.

FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group in the form of a comparative table for the last four financial years is set out on page 155 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company is subject to environmental protection laws and regulations promulgated by the governments in the jurisdictions in which the Company operates its business. The Company has dedicated a team of personnel to handle the environmental compliance-related matters, and implemented stringent waste treatment procedures in the manufacturing facilities.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company was registered by way of continuation in the Cayman Islands with its principal business conducted in the PRC, and its Shares are listed on the Stock Exchange. Therefore, the establishment and operation are subject to relevant laws in the Cayman Islands, the PRC and Hong Kong. For the year ended 31 December 2018 and up to the date of this annual report, the Group complied with relevant laws and regulation in the Cayman Islands, the PRC and Hong Kong.

Report of the Board of Directors

PRINCIPAL RISKS AND UNCERTAINTY

The Group is exposed to the operational risk in relation to the business of the Group. With the growth and expansion of our operations, the potential risks to our business increase as well. In order to identify, assess and control the risks that may create impediments to our success, the Group has implemented a risk management system that covers each material aspect of our operations, including financial security, production, logistics, technology and compliance. As the risk management is a systematic project, each of the departments is responsible for identifying and evaluating the risks relating to its area of operations. The Audit Committee is responsible for overseeing, assessing and reviewing our risk management policy and supervising the performance of our risk management system.

USE OF PROCEEDS FROM GLOBAL OFFERING

The shares of the Company were listed on the Main Board of the Stock Exchange on 12 December 2018 with net proceeds from the Global Offering of approximately HK$636.8 million (after deduction of underwriting fees and commissions and estimated expenses payable by the Company in connection with the Global Offering). The net proceeds will be applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 29 November 2018. During the Period, the net proceeds from the Listing had not been utilised given the short duration in between the Listing date and the financial year end. Currently, the Group holds the unutilised net proceeds as deposit with creditworthy banks with no recent history of default.

SHARE CAPITAL

The changes in share capital of the Group during the year are set out in note 29 to the Financial Statements.

RESERVES

Details of the changes in reserves of the Group during the year are set out in note 30 to the Financial Statements.

As at 31 December 2018, the reserves of the Company available for distribution to shareholders was approximately RMB721.0 million.

MAJOR CUSTOMERS AND SUPPLIERS

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year under review, and sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year, no major customer segment information is presented in accordance with HKFRS 8 Operating Segments.

The Group's five largest suppliers accounted for 23.6% (2017: 25.4%) of the Group's total purchases and the largest supplier accounted for 6.0% (2017: 6.6%) of the Group's total purchases.

Report of the Board of Directors

As far as the Company is aware, none of the Directors nor his/her connected persons and none of the shareholders possessing over 5% of the interest in the capital of the Company possessed any interest in the above-mentioned suppliers and customers.

PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment during the year are set out in note 13 to the Financial Statements.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group during the reporting period are set out in note 26 to the financial statements.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any contingent liabilities.

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

DIRECTORS

The Directors in office during the year ended 31 December 2018 and as at the date of this report were as follows:

Executive Directors

GUI Changqing
ZHANG Zejun

Non-executive Director

NG Benjamin Jin-Ping

Independent non-executive Directors

ZHANG Senquan
HU Peng
OUYANG Liangyi

Further details of the Directors and senior management are set forth in the section "Directors and Senior Management" of this annual report.

Report of the Board of Directors

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the senior management of the Group are set out on pages 20 to 24 of this annual report.

CHANGE IN INFORMATION OF DIRECTORS

There is no information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the publication of the prospectus of the Company on 29 November 2018. The biographical details of the Directors of the Company are set out in the preceding section headed "Directors and Senior Management".

SERVICE CONTRACTS OF DIRECTORS

Each of the Executive Directors has entered into a service contract/signed an appointment letter with the Company and is appointed for a specific term of three years unless terminated by not less than two months' notice in writing served by either the Executive Director or the Company.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company and is appointed for a specific term of three years with effect from the respective date stated therein.

All Directors are subject to retirement by rotation and re-election in accordance with the Articles.

There was no service contract entered into/appointment letter signed by the Company and any Directors to be re-elected in the forthcoming annual general meeting which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the related party transactions of the Group during the year ended 31 December 2018 are set out on pages 140 to 142 of this annual report.

Save as disclosed above, no other transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at any time during the Year or as at the end of the Year.

Report of the Board of Directors

CONTROLLING SHAREHOLDER'S INTEREST

Save as disclosed in this report, no contracts of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries or any contracts of any significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at any time during the Year or as at the end of the Year.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2018, the interests or short positions of the Directors or chief executives of the Company then in office in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter. 571, Laws of Hong Kong) ("**SFO**")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to the Model Code, are as follows:

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of Shareholding
Mr. Zhang Zejun (Note 2)	Founder of a discretionary trust	930,000,000(L)	41.87%
Ms. Gui Changqing (Note 2)	Beneficiary of trust	930,000,000(L)	41.87%
Mr. Ng Benjamin Jin-Ping	Beneficial owner	2,000,000(L)	0.09%

Notes:

(1) The letter "L" denotes the person's long position in such shares.

(2) Trident Trust Company (HK) Limited, the trustee of the Paddy Aroma Trust, holds the entire issued share capital of Paddy Aroma Investment Limited. Paddy Aroma Investment Limited in turn holds the entire issued share capital of Natural Capital, which in turn directly holds 930,000,000 Shares. The Paddy Aroma Trust is a discretionary trust established by Mr. Zhang (as the settlor) and the discretionary beneficiaries of which include Mr. Zhang, Ms. Gui (the wife of Mr. Zhang) and his children. Accordingly, each of Mr. Zhang, Ms. Gui, Trident Trust Company (HK) Limited, Paddy Aroma Investment Limited are deemed to be interested in the 930,000,000 Shares held by Natural Capital. Natural Capital pledged its 930,000,000 Shares held in our Company to CMBC International Holdings Limited as security for a term loan facility of US$40,000,000 provided to it by CMBC International Holdings Limited.

Report of the Board of Directors

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2018, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Name	Capacity	Number of Shares	Approximate Percentage of Shareholding
Trident Trust Company Limited (Note 2)	Trustee of a trust	930,000,000 (L)	41.87%
Paddy Aroma Investment Limited (Note 2)	Interest in a controlled corporation	930,000,000 (L)	41.87%
Natural Capital Holding Limited (Note 2)	Beneficial owner	930,000,000 (L)	41.87%
Yang Zhuo Ya (Note 3)	Interest in controlled corporation	374,000,000 (L)	16.83%
Natural Investment Holding Limited (Note 3)	Beneficial owner	224,000,000 (L)	10.08%
Beadvance Investments Limited (Note 3)	Beneficial owner	150,000,000 (L)	6.75%
Andrew Y. Yan (Note 4)	Interest in controlled corporation	208,200,000 (L)	9.37%
SAIF III GP, L.P. (Note 4)	Interest of controlled corporation	208,200,000 (L)	9.37%

Report of the Board of Directors

Name	Capacity	Number of Shares	Approximate Percentage of Shareholding
SAIF III GP Capital Ltd. (Note 4)	Interest of controlled corporation	208,200,000 (L)	9.37%
SAIF Partners III L.P. (Note 4)	Beneficial owner	208,200,000 (L)	9.37%
Li Hua (Note 5)	Interest in controlled corporation	115,700,000 (L)	5.20%
Surenew Investments Limited (Note 5)	Interest in controlled corporation	115,700,000 (L)	5.20%
One Supreme Limited (Note 5)	Beneficial owner	115,700,000 (L)	5.20%
Xiao Shu (Note 6)	Interest in controlled corporation	111,000,000 (L)	4.99%
Bright Natural Limited (Note 6)	Beneficial owner	111,000,000 (L)	4.99%
China Minsheng Banking Corp. Ltd. (Note 7)	Interest in controlled corporation	975,000,000	43.89%
CMBC International Holdings Limited (Note 7)	Person having security interest in shares	975,000,000	43.89%

Notes:

(1) The letter "L" denotes the person's long position in such shares.

(2) Trident Trust Company (HK) Limited, the trustee of the Paddy Aroma Trust, holds the entire issued share capital of Paddy Aroma Investment Limited. Paddy Aroma Investment Limited in turn holds the entire issued share capital of Natural Capital, which in turn directly holds 930,000,000 Shares. The Paddy Aroma Trust is a discretionary trust established by Mr. Zhang (as the settlor) and the discretionary beneficiaries of which include Mr. Zhang, Ms. Gui (the wife of Mr. Zhang) and his children. Accordingly, each of Mr. Zhang, Ms. Gui, Trident Trust Company (HK) Limited, Paddy Aroma Investment Limited are deemed to be interested in the 930,000,000 Shares held by Natural Capital. Natural Capital pledged its 930,000,000 Shares held in our Company to CMBC International Holdings Limited as security for a term loan facility of US$40,000,000 provided to it by CMBC International Holdings Limited.

(3) Mr. Yang Zhuoya holds the entire issued share capital of each of Natural Investment Holding Limited and Beadvance Investments Limited, which in turn directly holds 224,000,000 Shares and 150,000,000 Shares, respectively. Accordingly, Mr. Yang Zhuoya is deemed to be interested in the 224,000,000 Shares held by Natural Investment HoldingLimited and the 150,000,000 Shares held by Beadvance Investments Limited.

Report of the Board of Directors

(4) SAIF is a limited partnership fund established in the Cayman Islands whose sole general partner is SAIF III GP, L.P., a limited partnership established in the Cayman Islands. The sole general partner of SAIF III GP, L.P. is SAIF III GP Capital Ltd., an exempted limited liability company incorporated in the Cayman Islands, which is wholly owned and controlled by Andrew Y. Yan.

(5) Ms. Li Hua holds the entire issued share capital of Surenew Investments Limited, which in turn holds the entire issued share capital of One Supreme Limited. One Supreme Limited directly holds 115,700,000 Shares. Accordingly, each of Ms. Li Hua and Surenew Investments Limited is deemed to be interested in the 115,700,000 Shares held by One Supreme Limited.

(6) Mr. Xiao Shu holds the entire issued share capital of Bright Natural Limited, which in turn directly holds 111,000,000 Shares. Accordingly, Mr. Xiao Shu is deemed to be interested in the 111,000,000 Shares held by Bright Natural Limited.

(7) China Minsheng Banking Corp. Ltd. holds the entire issued share capital of CMBC International Holdings Limited. CMBC International Holdings Limited has a security interest in 930,000,000 Shares pledged in favor of it by Natural Capital and 45,000,000 Shares pledged in favor of it by Vision Legend Holdings Limited.

Save as disclosed above, as at 31 December 2018, so far as the Directors or chief executive of the Company are aware, no other persons (other than a Director or the chief executive of the Company) or entities had any interests or short positions in the Shares or underlying Shares, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as disclosed below, no equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

SHARE OPTION SCHEME

On 19 November 2018 (the "**Adoption Date**"), the Shareholders approved and conditionally adopted a share option scheme (the "**Share Option Scheme**") to enable the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. The Share Option Scheme became effective on the Listing Date and no options have been granted since then. As at 31 December 2018, there were no outstanding options and no options were exercised or lapsed from the Listing Date to 31 December 2018.

Report of the Board of Directors

The following is a summary of the principal terms of the Share Option Scheme:

(1) Purpose:

The purpose of the Share Option Scheme is to incentivise and reward the Eligible Persons (as defined in paragraph 2 below) for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

(2) Participants:

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to an employee (whether full time or part-time) or a director of a member of our Group or associated companies of the Company, consultant, advisor, customer, supplier, agent, partner or contractor to the Group ("**Eligible Persons**").

(3) Total number of Shares available for issue:

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 shall not in aggregate exceed 222,100,000 Shares, representing 10% of the total number of issued Shares as at the Listing Date.

No option has been granted under the Share Option Scheme since the Listing Date and up to 31 December 2018. Accordingly, the number of Shares available for issue upon exercise of options that may be granted under the Share Option Scheme is 222,100,000 representing 10% of the total number of issued Shares as at the date of this report.

(4) Maximum entitlement of each participant:

No options shall be granted to any Eligible Person under the Share Option Scheme and any Other Schemes of our Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date.

Any further grant of options to an Eligible Person in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such Eligible Person and his close associates (or if such Eligible Person is a connected person of our Company, his associates) abstaining from voting.

Report of the Board of Directors

Each grant of options to a Director (including an independent non-executive Director) of any member of our Group or associated company of our Company, chief executive or substantial shareholder of our Company, or any of their respective associates, under the Share Option Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).

Where any grant of options to a substantial shareholder or an independent non-executive Director of our Company, 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 under the Share Option Scheme (including options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million,

such further grant of options by the Board must be approved by the Shareholders in general meeting. Any Shareholder who is a connected person of our Company must abstain from voting on the resolution to approve such further grant of options, except that such a connected person may vote against such resolution subject to the requirements of the Listing Rules. The Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

(5) Period during which the options must be exercised to subscribe for Shares:

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date, after which period no further options will be granted but 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 options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

(6) Minimum period for which an option must be held before it can be exercised:

There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Board.

Report of the Board of Directors

(7) Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be repaid:

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

(8) Basis of determining the exercise price:

Subject to any adjustment made as set out in the section headed "Effect of alternation to share capital" in the prospectus of the Company dated 29 November 2018, the exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;

(ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and

(iii) the nominal value of the Shares.

(9) Remaining life of the Share Option Scheme:

The Share Option Scheme shall be valid and effective for a period of ten years commencing on 12 December 2018, subject to earlier termination by the Company in general meeting or by the Board.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement.

CONNECTED TRANSACTIONS

Details of the continuing connected transaction of the Group during the year ended 31 December 2018 have been disclosed in the Prospectus, which is fully exempted from the reporting, announcement, shareholders' approval and annual review requirements under the Listing Rules.

Report of the Board of Directors

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had 1,007 employees, as compared with 934 employees as at 31 December 2017. For the year ended 31 December 2018, costs of employees, excluding Directors' emoluments, amounted to a total of RMB190.9 million, representing an increase of approximately 15.0% from RMB166.0 million in 2017. The increase in cost of employee is mainly attributable to the internal promotion of talented employees into senior or leadership roles, and the recruitment of diverse talent into our workforce. The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale. The Group provides its employees with welfare schemes as required by applicable local laws and regulations.

The Company has also adopted a share option scheme on 19 November 2018. Details of the share option scheme are set out in the paragraph headed "Share Option Scheme" in this section.

DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and those of the five highest paid individuals of the Group for the year ended 31 December 2018 are set out in note 8-9 to the consolidated financial statements of the Group in this annual report.

None of the Directors waived his/her emoluments nor has agreed to waive his/her emoluments for the year ended 31 December 2018.

PURCHASE, SALE AND REDEMPTION OF SHARES

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries from the Listing Date and up to 31 December 2018.

CHARITABLE DONATIONS

During the year under review, the charitable contributions and other donations amounted to RMB5,000.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Company so as to achieve effective accountability. The Company is committed to the view that the Board should include a balanced composition of Executive Directors and INEDs so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The code provisions of the CG Code as set out in Appendix 14 to the Listing Rules were not applicable to the Company before the Listing Date.

Report of the Board of Directors

During the Period, the corporate governance practices adopted by the Company had complied with all of the code provisions of the CG Code. For details, please refer to the "Corporate Governance Report".

The Audit Committee, consisting of all three INEDs, namely Mr. Zhang Senquan (chairman of the Audit Committee), Mr. Hu Peng and Mr. Ouyang Liangyi, is responsible for reviewing the Company's corporate governance policies and the Company's compliance with the CG Code and will make relevant recommendations to the Board accordingly.

SECURITIES TRANSACTIONS BY DIRECTORS

The Model Code as set out in Appendix 10 to the Listing Rules was not applicable to the Company before the Listing Date. The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct governing the Directors' securities transactions and each of the Directors has confirmed, upon specific enquiries made by the Company, that he/she had complied with the Model Code during the Period.

CONFIRMATION OF INDEPENDENT STATUS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors independent.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2018, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

DEED OF NON-COMPETITION

Pursuant to a deed of non-competition (the "**Deed of Non-competition**") dated 22 November 2018 and executed by Mr. Zhang Zejun and Natural Capital Holding Limited ("**Natural Capital**"), each of Mr. Zhang and Natural Capital has undertaken to the Company that it/he will not engage in, and shall procure his/its close associates (other than members of the Group) not to engage in, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group. Details of the Deed of Non-competition have been disclosed in the section headed "Relationship with our Controlling Shareholders — Competing Interests — Deed of Non-competition" of the Prospectus.

The Company has received from Mr. Zhang and Natural Capital an annual confirmation that he/it has fully complied with his/its obligations under the Deed of Non-competition. The independent non-executive Directors have reviewed and were satisfied that each of Mr. Zhang and Natural Capital had complied with and enforced the provisions of the Deed of Non-competition during the Period.

Report of the Board of Directors

SUFFICIENT PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained a sufficient public float throughout the period from the Listing Date to the date of this report.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group recognises that the employees, customers and suppliers are keys to corporate sustainability and are keen on developing long-term relationships with stakeholders.

The Company places significant emphasis on human capital and strives to foster an environment in which the employee can develop their full potential and to assist their personal and professional growth. The Company provides a fair and safe workplace, promoting diversity to our staff, providing competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts on-going efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards of quality in the service to its customers. During the year under review, there was no material and significant legal dispute between the Group and its suppliers and/or customers.

PROFESSIONAL TAX ADVICE RECOMMENDED

For any tax implications of purchasing, holding, disposing of, dealing in the shares of the Company, shareholders should consult an expert.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

The Company has taken appropriate insurance coverage in respect of Directors' and officers' liability since 30 January 2019 until the end of the Year.

Report of the Board of Directors

MANAGEMENT CONTRACTS

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

EVENT AFTER THE REPORTING PERIOD

For brand marketing, the Group has cooperated with the Forbidden City in China in March 2019 to enhance the brand value and reputation of the Group and further strengthened its brand value to increase market share.

Save as disclosed in the report, there was no other significant event relevant to the business or financial performance of the Group that come to the attention of the Directors since 31 December 2018.

REVIEW OF THE ANNUAL RESULTS

The Audit Committee had reviewed this annual report (including the Financial Statements) and the annual results announcement of the Company for the year ended 31 December 2018 and had submitted the same to the Board for approval. Members of the Audit Committee were of the opinion that the Financial Statements, the results announcement and this annual report had been prepared in compliance with the applicable accounting standards and the Listing Rules and that adequate disclosure had been made.

AUDITORS

The financial statements of the Company for the year ended 31 December 2018 have been audited by Ernst & Young which will retire, and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming annual general meeting.

For and on behalf of the Board of Directors
GUI Changqing
Chairman

29 March 2019

Independent auditor's report

EY 安永

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To the members of Natural Food International Holding Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Natural Food International Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 154, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Independent auditor's report

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit matter	How our audit addressed the key audit matter
Revenue recognition	
The Group is principally engaged in the production and selling of natural health food. There is risk inherently around revenue recorded based on the fact that the Group earns revenue primarily through a chain of retail outlet channels or third-party online retail platform network. For the year ended 31 December 2018, the Group's consolidated revenue amounted to RMB1,818,066,000. Revenue was significant in our audit of the consolidated financial statements for the current year. Please refer to note 2.4 to the financial statements for the summary of accounting policies relating to revenue recognition, and note 5 for the related disclosure for revenue for the Group.	We reviewed and assessed the Group's revenue recognition policy across various sales channels and significant terms and conditions in contracts; We understood the transaction process of revenue recognition and evaluated the design, implementation and operating effectiveness of key internal controls which govern revenue recognition; We performed analytical procedures on the Group's revenue by different channels and by months to identify and investigate transactions of higher risks of misstatements. We also performed revenue cut-off procedures as well as tests of details, as part of our substantive audit procedures; We obtained confirmations, on a sample basis, from major retail outlet channels of the Group to confirm revenue recognised during the year and for unreturned confirmations, we performed alternative procedures by comparing details with contracts, bank-in slips and other related documentation.

Independent auditor's report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Independent auditor's report

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

Independent auditor's report

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Law Kwok Kee.

Ernst & Young
Certified Public Accountants
Hong Kong
28 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**1,818,066**	1,576,145
Cost of sales		**(427,398)**	(374,325)
Gross profit		**1,390,668**	1,201,820
Other income and gains	5	**21,970**	15,624
Selling and distribution expenses		**(1,070,944)**	(926,094)
Administrative expenses		**(133,161)**	(85,603)
Impairment losses on financial assets	6	**(3,233)**	(344)
Other expenses		**(1,525)**	(876)
Finance costs	7	**(436)**	(216)
Loss on fair value changes of convertible and redeemable preferred shares	27	**(75,706)**	(2,196)
PROFIT BEFORE TAX	6	**127,633**	202,115
Income tax expense	10	**(22,394)**	(16,416)
PROFIT FOR THE YEAR		**105,239**	185,699
Attributable to:			
Owners of the parent	12	**105,239**	185,699
Non-controlling interests		**—**	—
		105,239	185,699

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	**2018** **RMB'000**	2017 RMB'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(7,788)**	13,493
Other comprehensive loss that will not to be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		**(16,932)**	(13,345)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**80,519**	185,847
Attributable to:			
Owners of the parent		**80,519**	185,847
Non-controlling interests		**—**	—
		80,519	185,847
Earnings per share (expressed in RMB)			
Basic	12	**0.06**	0.13
Diluted	12	**0.06**	0.10

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**212,646**	135,748
Prepaid land lease payments	14	**36,640**	37,500
Intangible assets	15	**1,543**	1,717
Deferred tax assets	16	**18,448**	21,747
Total non-current assets		**269,277**	196,712
CURRENT ASSETS			
Inventories	17	**122,286**	81,647
Trade and bills receivables	18	**239,602**	178,462
Available-for-sale investments	19	**—**	85,000
Financial assets at fair value through profit or loss	19	**71,400**	—
Prepayments, other receivables and other assets	20	**59,423**	85,901
Amounts due from related parties	34	**9,375**	13,440
Time deposits	22	**25,000**	—
Cash and cash equivalents	22	**604,913**	227,119
Total current assets		**1,131,999**	671,569
CURRENT LIABILITIES			
Trade payables	23	**72,121**	72,319
Interest-bearing borrowing	26	**70,096**	—
Contract liabilities	24	**16,669**	20,623
Other payables and accruals	25	**137,357**	116,083
Amounts due to related parties	34	**—**	35,495
Amounts due to directors	21	**—**	2,341
Convertible and redeemable preferred shares	27	**—**	222,287
Dividend payable	11	**—**	7,433
Tax payable		**27,570**	17,768
Total current liabilities		**323,813**	494,349
NET CURRENT ASSETS		**808,186**	177,220
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,077,463**	373,932

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	28	**277**	466
Deferred tax liabilities	16	**4,361**	16,390
Total non-current liabilities		**4,638**	16,856
Net assets		**1,072,825**	357,076
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	**149**	106
Reserves		**1,072,676**	356,970
Non-controlling interests		**—**	—
Total equity		**1,072,825**	357,076

Gui Changqing
Director

Zhang Zejun
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the parent						
	Share capital RMB'000 (Note 29)	Share premium RMB'000 (Note 30(a))	Merger reserve RMB'000 (Note 30(b))	Exchange fluctuation reserve RMB'000 (Note 30(c))	Statutory surplus reserve RMB'000 (Note 30(d))	Retained profits RMB'000	Total RMB'000
At 1 January 2017	91	185,761	(87,350)	5,240	15,795	(67,665)	51,872
Profit for the year	—	—	—	—	—	185,699	185,699
Exchange differences on translation of foreign operations	—	—	—	13,493	—	—	13,493
Translation from functional currency to presentation currency	—	—	—	(13,345)	—	—	(13,345)
Total comprehensive income for the year	—	—	—	148	—	185,699	185,847
Conversion of preferred shares (note 27)	15	179,528	—	—	—	—	179,543
Transfer to statutory reserve funds	—	—	—	—	8,771	(8,771)	—
Special dividend declared to shareholders	—	—	—	—	—	(60,186)	(60,186)
At 31 December 2017 and 1 January 2018	106	365,289*	(87,350)*	5,388*	24,566*	49,077*	357,076
Effects of adoption of HKFRS 9 (note 2.2)	—	—	—	—	—	(1,757)	(1,757)
At 1 January 2018 (restated)	106	365,289	(87,350)	5,388	24,566	47,320	355,319
Profit for the year	—	—	—	—	—	105,239	105,239
Exchange differences on translation of foreign operations	—	—	—	(7,788)	—	—	(7,788)
Translation from functional currency to presentation currency	—	—	—	(16,932)	—	—	(16,932)
Total comprehensive income for the year	—	—	—	(24,720)	—	105,239	80,519
Conversion of preferred shares (note 27)	14	297,979	—	—	—	—	297,993
Issue of shares for the Initial Public Offering ("IPO")	29	602,542	—	—	—	—	602,571
Share issue expenses	—	(43,506)	—	—	—	—	(43,506)
Transfer to statutory reserve funds	—	—	—	—	7,762	(7,762)	—
Special dividend declared to shareholders	—	—	—	—	—	(220,071)	(220,071)
At 31 December 2018	149	1,222,304*	(87,350)*	(19,332)*	32,328*	(75,274)*	1,072,825

* These reserve accounts comprise the consolidated reserves of RMB1,072,676,000 (2017: RMB356,970,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**127,633**	202,115
Adjustments for:			
Bank interest income	5	**(1,206)**	(4,252)
Income from available-for-sale investments	5	**—**	(3,653)
Income from financial assets measured at fair value through profit or loss	5	**(4,868)**	—
Finance costs	7	**436**	216
Loss on fair value changes of convertible and redeemable preferred shares	6	**75,706**	2,196
Depreciation of property, plant and equipment	6	**25,124**	22,321
Amortisation of intangible assets	6	**660**	781
Amortisation of prepaid land lease payments	6	**860**	860
Impairment of trade receivables	6	**3,232**	344
Loss on disposal of items of property, plant and equipment	6	**893**	443
Unrealised exchange (gain)/loss		**(3,992)**	216
		224,478	221,587
Increase in inventories		**(40,639)**	(10,028)
Increase in trade and bills receivables		**(66,716)**	(46,475)
Decrease/(increase) in prepayments, other receivables and other assets		**26,010**	(18,947)
Decrease/(increase) in amounts due from related parties		**4,065**	(5,434)
Increase/(decrease) in trade payables		**(198)**	23,032
Increase in other payables and accruals		**18,607**	28,604
Decrease in amounts due to directors		**(2,341)**	(5,000)
Decrease in amounts due to related parties		**(2,059)**	(3,374)
(Decrease)/increase in contract liabilities		**(3,954)**	2,088
Decrease in deferred income		**(189)**	(189)
Cash generated from operations		**157,064**	185,864
Interest received		**1,206**	4,252
Income tax paid		**(24,620)**	(21,336)
Net cash flows from operating activities		**133,650**	168,780

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale investments/financial assets measured at fair value through profit or loss		**(740,600)**	(1,668,700)
Proceeds from redemption of available-for-sale investments/ financial assets measured at fair value through profit or loss		**759,068**	1,728,853
(Increase)/decrease in time deposits		**(25,000)**	10,000
Purchase of items of property, plant and equipment		**(100,431)**	(34,451)
Purchase of items of prepaid land lease payments		**—**	(607)
Purchase of items of intangible assets		**(486)**	(614)
Proceeds from disposal of items of property, plant and equipment		**49**	180
Net cash flows (used in)/from investing activities		**(107,400)**	34,661
CASH FLOWS FROM FINANCING ACTIVITIES			
New loan		**246,106**	—
Repayment of a loan		**(176,388)**	(5,000)
Proceeds from issue of shares		**—**	2,500
Proceeds from issue of shares for the IPO		**602,571**	—
Share issue expenses		**(43,036)**	—
Increase in an amount due to a director		**13,028**	
Decrease in an amount due to a director		**(13,028)**	
Interest paid		**(304)**	
Decrease in an amount due to a related party		**(33,436)**	—
Dividend paid		**(244,749)**	(52,753)
Net cash flows from/(used in) financing activities		**350,764**	(55,253)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**377,014**	148,188
Cash and cash equivalents at beginning of year		**227,119**	81,171
Effect of foreign exchange rate changes, net		**780**	(2,240)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**604,913**	227,119
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**604,913**	227,119

Notes to Financial Statements

For the year ended 31 December 2018

1. CORPORATE INFORMATION

The Company was formerly known as Roomy Development Holdings Limited, a limited liability company incorporated under the laws of the British Virgin Islands (the "BVI") on 30 November 2009. It was registered by way of continuation in the Cayman Islands as an exempted company with limited liability under the laws of the Cayman Islands and changed its name to "Natural Food International Holding Limited" on 11 May 2018. The address of the registered office of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 December 2018 (the "Listing").

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in processing and selling natural health food in the People's Republic of China (the "PRC").

Information about subsidiaries

Name	Place and date of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Natural Food International Group Limited *	Hong Kong, 14 January 2009	Hong Kong dollar ("HK$")10,000	100%	—	Investment holding
Gold Parsons International Limited ("Gold Parsons") *	BVI, 16 December 2009	United States dollar ("USD")1,783	100%	—	Investment holding
Natural Food Online Limited *	Hong Kong, 28 April 2009	HK$10,000	—	100%	Investment holding
Shenzhen Natural Food Co., Ltd. # *	PRC, 15 December, 2011	HK$8,000,000	—	100%	Sale of natural health food
Tongyuan New Agricultural Development (Huanggang) Co., Ltd. # *	PRC, 19 October 2009	HK$40,000,000	—	100%	Investment holding
Hubei Fuya Food Science and Technology Co., Ltd. *	PRC, 30 March 2011	RMB20,000,000	—	100%	Manufacture and sale of natural health food

Notes to Financial Statements

For the year ended 31 December 2018

1. CORPORATE INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place and date of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Guangxi Guiping Jingu Agricultural Development Co., Ltd.*	PRC, 1 August 2013	RMB4,000,000	—	100%	Manufacture and sale of natural health food
Natural Food (Guangzhou) Co., Ltd.#*	PRC, 16 March 2016	HK$135,000,000	—	100%	Manufacture and sale of natural health food
Fuya Food Technology (Shenzhen) Co., Ltd.# *	PRC, 4 June 2009	HK$21,000,000	—	100%	Investment holding and management and administration
Shenzhen Xiangya Food Co., Ltd.*	PRC, 9 March 2007	RMB1,000,000	—	100%	Sale of natural health food
Shenzhen Changqing Food Technology Co., Ltd.*	PRC, 10 November 2010	RMB5,000,000	—	100%	Sale of natural health food

These subsidiaries were registered as wholly-owned foreign enterprises under PRC law.

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to Financial Statements

For the year ended 31 December 2018

2.1 BASIS OF PREPARATION

The financial statements has been prepared in accordance with HKFRSs (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. *HKFRS 15 Revenue from Contracts with Customers,* together with the relevant transitional provisions, have been early adopted by the Group.

The financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, available-for-sale investments which have been measured at fair value. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to Financial Statements

For the year ended 31 December 2018

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
Amendments to HKAS 40	*Transfers of Investment Property*
HK (IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

These standards have had no significant effect on the financial statements of the Group, except for the following:

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments:

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Notes to Financial Statements

For the year ended 31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

Financial assets

	31 December 2017 originally stated			1 January 2018 as restated	
	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Reclassification and remeasurement upon the adoption of HKFRS 9 RMB'000	Financial assets at fair value through profit or loss RMB'000	Amortised cost RMB'000
Trade and bills receivables	—	178,462	(2,343)	—	176,119
Financial assets included in prepayments, other receivables and other assets	—	53,651	—	—	53,651
Amounts due from related parties	—	13,440	—	—	13,440
Cash and cash equivalents	—	227,119	—	—	227,119
Financial assets at fair value through profit or loss	—	—	85,000	85,000	—
Available-for-sale investments	85,000	—	(85,000)	—	—
	85,000	472,672	(2,343)	85,000	470,329

Financial liabilities

The Group did not reclassify any financial liabilities on 1 January 2018.

Notes to Financial Statements

For the year ended 31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 18 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 RMB'000	Re-measurement RMB'000	ECL allowances under HKFRS 9 at 1 January 2018 RMB'000
Trade receivables	484	2,343	2,827

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Retained profits RMB'000
At 1 January 2018 (originally stated)	49,077
Recognition of expected credit losses for trade receivables under HKFRS 9	(2,343)
Deferred tax in relation to the above	586
At 1 January 2018 (restated)	47,320

Notes to Financial Statements

For the year ended 31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in the financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

The Group is in the process of making assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group has expected that these standards will not have a significant effect on the financial statements of the Group, except for the following:

HKFRS 16, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments.

Notes to Financial Statements

For the year ended 31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application.

The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group does not expect the adoption of HKFS 16 as compared with the current accounting policy would result any significant impact on the financial position and performance of the Group.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss and other comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss and other comprehensive income in the period in which it arises.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss and other comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Plant, machinery and equipment	10% to 19%
Motor vehicles	19%
Office equipment and others	19% to 32%
Leasehold improvements	Shorter of estimated useful lives or remaining lease terms

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Software

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Research and development costs

All research costs are charged to the statement of profit or loss and other comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss and other comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and other comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss and other comprehensive income.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement (Continued)

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS *32 Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss and other comprehensive income. Dividends are recognised as other income in the statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss and other comprehensive income.

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For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss (Continued)

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss and other comprehensive income. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in other expenses for receivables.

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For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement (Continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss and other comprehensive income in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss and other comprehensive income in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported and other comprehensive income as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss and other comprehensive income.

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For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

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For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Financial assets carried at amortised cost (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss and other comprehensive income.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss and other comprehensive income, is removed from other comprehensive income and recognised in the statement of profit or loss and other comprehensive income.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss and other comprehensive income — is removed from other comprehensive income and recognised in the statement of profit or loss and other comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss and other comprehensive income. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to directors and related parties, a dividend payable, convertible and redeemable preferred shares and an interest bearing borrowing.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss and other comprehensive income.

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For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (Continued)

Convertible and redeemable preferred shares

The convertible and redeemable preferred shares with embedded derivatives whose economic risks and characteristics are not closely related to those of the host contract (the liability component) as a whole are designated as financial liabilities at fair value through profit or loss on initial recognition.

The Group has designated convertible and redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in profit or loss. Subsequent to initial recognition, the convertible and redeemable preferred shares are carried at fair value with changes in fair value recognised in profit or loss. The convertible and redeemable preferred shares are classified as current liabilities because the preferred shares holders can demand the Company to redeem the preferred shares within 12 months after the end of the reporting period or on demand.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the moving weighted-average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss and other comprehensive income.

Customer loyalty program

The Group operates a customer loyalty program which allows customers to earn points when they purchase products of the Group. The points can then be redeemed for free services or products, subject to a minimum number of points being obtained. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. The consideration received or receivable from the products sold is allocated between the points earned by the customer loyalty program members and the other components of the sales transactions, based on relative stand-alone selling prices. The amount allocated to the points earned by the customer loyalty program members is recognised as a contract liability until the points are redeemed when the Group fulfils its obligations to supply services or products or when the points expire.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to a the statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Sale of goods

Revenue from the sale of products (mainly including natural health food) directly to customers is recognised when control of the goods has transferred, being when the products are accepted by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

The Group sells its products to end-customers via a chain of retail outlets or over third-party online retail platforms. The sales proceeds are settled by these sales channels normally in one to three months. Except for credit points granted under the customer loyalty program which are accounted for in "Customer loyalty program" above, there are no performance obligations in the contract with customers. No warranties or rights of return are offered to end-customers.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods to the customer, the Group needs to first identify who controls the specified goods before they are transferred to the customer. The Group is a principal who obtains control any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a good from the other party that the Group then combines with other goods in providing the specified good to the customer. If control is unclear, the Group records revenues on a gross basis when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or when there are several but not all of these indicators. Otherwise, the Group records the net amount earned as commissions from products sold provided.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good to the customer and when the customer pays for that good will be one year or less.

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods transferred to the customer. If the Group performs by transferring goods to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional (other than the passage of time).

Trade receivables

A trade receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss and other comprehensive income on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss and other comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in the PRC are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

The financial statements are presented in RMB. The Company's functional currency is the Hong Kong dollar, and each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Notes to Financial Statements

For the year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised. This requires significant judgement on the tax departments of certain transactions and also assessments on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue deferred tax liabilities in respect of withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends. Such judgement is made with reference to the Group's business plan and future cash requirements outside the PRC.

Notes to Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Customer loyalty program

The amount of revenue allocated to the points earned by the members of the Group's customer loyalty program is based on the estimated stand-alone selling prices of the products and the respective loyalty points earned through the sales transactions. When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue. Further details are disclosed in note 24 to the financial statements.

Impairment of loans and receivables

Before 1 January 2018, the Group assessed at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The provision for impairment of trade receivables at 31 December 2017 amounted to RMB484,000, details of which are set out in notes 18 to the financial statements.

From 1 January 2018, The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groups of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future. The provision for expected credit losses of trade receivables as at 31 December 2018 amounted to RMB6,060,000, details of which are set out in note 18 to the financial statements.

Notes to Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Fair value of convertible and redeemable preferred shares

The convertible and redeemable preferred shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group has used the discounted cash flow method to determine the underlying equity value of the Company and adopted equity allocation model to determine the fair value of the preferred shares. The valuation requires to make estimates about the discount rate, risk-free interest rate, discount for lack of marketability and volatility, etc. and hence is subject to uncertainty. Further details are disclosed in note 27 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of natural health products. Information reported to the Group's management for the purpose of resource allocation and performance assessment focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

The Group operates within one geographical location because 100% of its revenue was generated in the PRC and all of its non-current assets and capital expenditure were located/incurred in the PRC. Accordingly, no geographical information is presented.

Information about major customers

The Group's customers primarily consist of individual customers. During the years ended 31 December 2017 and 2018, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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For the year ended 31 December 2018

5. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns, and trade discounts (net of value-added tax) during the years ended 31 December 2017 and 2018.

An analysis of revenue and other income and gains is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Sale of goods	**1,818,066**	1,576,145

	2018 RMB'000	2017 RMB'000
Timing of revenue recognition		
Goods transferred at a point in time	**1,818,066**	1,576,145
Other income and gains		
Government grants*	**9,400**	3,659
Other interest income	**1,499**	2,999
Bank interest income	**1,206**	4,252
Interest income from loans to related parties (note 34)	**63**	150
Income from available-for-sale investments	**—**	3,653
Income from financial assets at fair value through profit or loss	**4,868**	—
Commission income from provision of a sales platform	**4,211**	—
Others	**723**	911
	21,970	15,624

* Various government grants have been received from local government authorities in the PRC. There are no unfulfilled conditions and other contingencies relating to these grants.

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For the year ended 31 December 2018

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	**2018** **RMB'000**	2017 RMB'000
Cost of inventories sold		**427,398**	374,325
Depreciation of property, plant and equipment	13	**25,124**	22,321
Minimum lease payments under operating leases		**10,641**	8,654
Research and development costs*		**7,243**	5,670
Amortisation of prepaid land lease payments	14	**860**	860
Amortisation of intangible assets	15	**660**	781
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**165,983**	136,894
Pension scheme contributions		**24,951**	29,126
Auditors' remuneration		**1,577**	43
Listing expenses		**32,056**	566
Impairment of trade receivables**	18	**3,233**	344
Loss on disposal of items of property, plant and equipment		**893**	443
Loss on fair value changes of convertible and redeemable preferred shares	27	**75,706**	2,196
Finance costs	7	**436**	216
Bank interest income	5	**(1,206)**	(4,252)

* Research and development costs is included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

** Impairment of trade receivables is included in "Impairment losses on financial assets" in the consolidated statement of profit or loss and other comprehensive income.

Notes to Financial Statements

For the year ended 31 December 2018

7. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	2018 **RMB'000**	2017 RMB'000
Interest on a bank loan using the effective interest rate method	**—**	216
Interest on a borrowing from a financial institution	**241**	—
Interest on an amount due to a director (note 34)	**195**	—
	436	216

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2018 **RMB'000**	2017 RMB'000
Fees	**90**	—
Other emoluments		
— Salaries, allowances and benefits in kind	**1,673**	1,024
— Pension scheme contributions	**90**	104
	1,763	1,128
	1,853	1,128

Notes to Financial Statements

For the year ended 31 December 2018

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018 RMB'000	2017 RMB'000
Mr. Zhang Senquan (note(a))	30	—
Mr. Hu Peng (note(a))	30	—
Mr. Ouyang Liangyi (note(a))	30	—
	90	—

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

(b) Executive directors and a non-executive director

2018	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:			
Ms. Gui Changqing	748	37	785
Mr. Yang Zhuoya (note(b))	177	16	193
Mr. Zhang Zejun	748	37	785
	1,673	90	1,763
Non-executive director:			
Mr. NG Benjamin Jin-ping	—	—	—
	1,673	90	1,763

Notes to Financial Statements

For the year ended 31 December 2018

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors and a non-executive director (Continued)

2017	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Ms. Gui Changqing	312	34	346
Mr. Yang Zhuoya (note(b))	400	36	436
Mr. Zhang Zejun	312	34	346
Mr. NG Benjamin Jin-ping	—	—	—
Ms. Jiang Yiwen (note(c))	—	—	—
	1,024	104	1,128

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes:

(a) Mr. Zhang Senquan, Mr. Hu Peng and Mr. Ouyang Liangyi were appointed as independent non-executive directors of the Company with effect from 19 November 2018.

(b) Mr. Yang Zhuoya was appointed as a director of the Company with effect from 30 November 2009 and resigned on 7 June 2018.

(c) Ms. Jiang Yiwen was appointed as a director of the Company with effect from 8 December 2016 and resigned on 2 November 2017.

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For the year ended 31 December 2018

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included nil directors (2017: Nil), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining five (2017: five) highest paid employees who are neither a director nor chief executive of the Group are as follows:

	2018 **RMB'000**	2017 RMB'000
Other emoluments		
— Salaries, allowances and benefits in kind	**4,540**	3,486
— Pension scheme contributions	**179**	136
	4,719	3,622

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	2018	2017
Nil to HK$1,000,000	—	5
HK$1,000,001 to HK$1,500,000	**5**	—
	5	5

During the year, no remuneration was paid by the Group to non-director and non-chief executive highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

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10. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the British Virgin Islands and the Cayman Islands, the Group is not subject to any income tax in the British Virgin Islands and the Cayman Islands during the years ended 31 December 2017 and 2018.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the years ended 31 December 2017 and 2018.

Taxes on profits assessable in the PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in the PRC during the years ended 31 December 2017 and 2018 was 25% on their taxable profits.

During the years ended 31 December 2017 and 2018, income arising from the preliminary agricultural processed products in Guangxi Guiping Jingu Agricultural Development Co., Ltd. and Hubei Fuya Food Science and Technology Co., Ltd. was not subject to income tax, pursuant to the relevant PRC tax laws.

The income tax expenses of the Group for the years ended 31 December 2017 and 2018 are analysed as follows:

	2018 **RMB'000**	2017 RMB'000
Current – PRC		
Charge for the year	**16,288**	23,523
Deferred (note 16)	**6,106**	(7,107)
Total tax charge for the year	**22,394**	16,416

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For the year ended 31 December 2018

10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the country in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates are as follows:

	2018		2017	
	RMB'000	%	RMB'000	%
Profit before tax	127,633		202,115	
Tax at the applicable statutory rate in each jurisdiction	60,439	47.4	51,300	25.4
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	2,221	1.7	3,500	1.7
Income not subject to tax *	(42,601)	(33.4)	(42,727)	(21.2)
Expenses not deductible for tax	2,335	1.8	4,473	2.2
Tax losses utilised from previous periods	—	—	(274)	(0.1)
Tax losses not recognised	—	—	144	0.1
Tax charge at the effective rate	22,394	17.5	16,416	8.1

* According to Notice of the Ministry of Finance and the State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Enterprise Income Tax (for Trial Implementation) promulgated on 20 November 2008, and Supplementary Notice of the Ministry of Finance and the State Administration of Taxation on the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Enterprise Income Tax issued on 11 May 2011, the income derived from the prescribed scope of preliminarily-processed agricultural products can be exempted from corporate income tax. During the years ended 31 December 2017 and 2018, Guangxi Guiping Jingu Agricultural Development Co., Ltd. and Hubei Fuya Food Science and Technology Co., Ltd, had such income derived from preliminarily-processed agricultural products which was not subject to corporate income tax.

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For the year ended 31 December 2018

11. DIVIDENDS

The special dividend during the year ended 31 December 2017 represented a dividend declared by the Company at HK$4,000 per share on 10 November 2017. HK$ 63,108,000 was paid on 28 December 2017 and HK$8,892,000 was paid on 23 January 2018.

The special dividend during the year ended 31 December 2018 represented a dividend declared by the Company at HK$15,000 per share on 14 June 2018. HK$270,000,000 was paid on 10 December 2018.

At a meeting held by the board on 28 March 2019, the board proposed a final dividend in respect of the year ended 31 December 2018 of RMB0.02 per ordinary share of the Company, totalling approximately RMB44,420,000 based on the latest number of ordinary shares of 2,221,000,000 shares of the Company in issue. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue, during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect fair value changes of convertible and redeemable preferred shares. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The Group had no potentially dilutive ordinary shares in issue as at 31 December 2018.

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12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

(Continued)

The calculations of basic and diluted earnings per share are based on:

Earnings	**2018** **RMB'000**	2017 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**105,239**	185,699
Adjustment:		
Fair value changes of convertible and redeemable preferred shares (note 27)	**75,706**	2,196
Profit attributable to ordinary equity holders of the parent used in the diluted earnings per share calculation	**180,945**	187,895

Shares	**2018**	2017
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**1,624,552,877**	1,404,300,000
Effect of dilution – weighted average number of ordinary shares: convertible and redeemable preferred shares	**197,362,192**	395,700,000
Weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**1,821,915,069***	1,800,000,000

On December 12, 2018, pursuant to the shareholders' resolution, each existing issued and unissued share of USD1 each in the share capital of the Company were subdivided into 100,000 shares of USD0.00001 each. Following the share subdivision, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the years ended 31 December, 2018 and 2017 has been retrospectively adjusted.

* Because the diluted earnings per share amount is increased when taking convertible and redeemable preferred shares into account, the convertible and redeemable preferred shares had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2018 and were ignored in the calculation of diluted earnings per share.

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
At 1 January 2018:							
Cost	90,594	66,268	758	44,532	5,862	4,833	212,847
Accumulated depreciation	(17,547)	(28,534)	(694)	(27,067)	(3,257)	—	(77,099)
Net carrying amount	73,047	37,734	64	17,465	2,605	4,833	135,748
At 1 January 2018, net of accumulated depreciation	73,047	37,734	64	17,465	2,605	4,833	135,748
Additions	10,146	14,058	3	16,376	125	62,256	102,964
Transferred from construction in process	150	—	—	—	—	(150)	—
Disposals	—	(942)	—	—	—	—	(942)
Depreciation provided during the year (note 6)	(6,311)	(7,342)	(17)	(10,553)	(901)	—	(25,124)
At 31 December 2018, net of accumulated depreciation	77,032	43,508	50	23,288	1,829	66,939	212,646
At 31 December 2018:							
Cost	100,890	75,442	761	60,908	5,987	66,939	310,927
Accumulated depreciation	(23,858)	(31,934)	(711)	(37,620)	(4,158)	—	(98,281)
Net carrying amount	77,032	43,508	50	23,288	1,829	66,939	212,646

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13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017							
At 1 January 2017:							
Cost	86,313	56,215	758	32,039	5,413	1,121	181,859
Accumulated depreciation	(13,324)	(23,057)	(667)	(18,646)	(1,924)	—	(57,618)
Net carrying amount	72,989	33,158	91	13,393	3,489	1,121	124,241
At 1 January 2017, net of accumulated depreciation	72,989	33,158	91	13,393	3,489	1,121	124,241
Additions	1,424	11,462	—	14,547	449	6,569	34,451
Transferred from construction in process	2,857	—	—	—	—	(2,857)	—
Disposals	—	(427)	—	(196)	—	—	(623)
Depreciation provided during the year (note 6)	(4,223)	(6,459)	(27)	(10,279)	(1,333)	—	(22,321)
At 31 December 2017, net of accumulated depreciation	73,047	37,734	64	17,465	2,605	4,833	135,748
At 31 December 2017:							
Cost	90,594	66,268	758	44,532	5,862	4,833	212,847
Accumulated depreciation	(17,547)	(28,534)	(694)	(27,067)	(3,257)	—	(77,099)
Net carrying amount	73,047	37,734	64	17,465	2,605	4,833	135,748

The buildings of the Group are situated in the PRC.

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14. PREPAID LAND LEASE PAYMENTS

	2018	2017
	RMB'000	RMB'000
Carrying amount at 1 January	**38,360**	39,220
Addition	**—**	—
Amortisation recognised during the year (note 6)	**(860)**	(860)
Carrying amount at 31 December	**37,500**	38,360
Current portion included in prepayments, other receivables and other assets (note 20)	**(860)**	(860)
Non-current portion	**36,640**	37,500

The leasehold lands are located in the PRC and are held under medium term leases.

15. INTANGIBLE ASSETS

Software	**2018**	2017
	RMB'000	RMB'000
Cost at 1 January, net of accumulated amortisation	**1,717**	1,884
Addition	**486**	614
Amortisation provided during the year (note 6)	**(660)**	(781)
Carrying amount at 31 December	**1,543**	1,717
At 31 December:		
Cost	**5,522**	5,036
Accumulated amortisation	**(3,979)**	(3,319)
Net carrying amount	**1,543**	1,717

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16. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Depreciation allowance in excess of related depreciation RMB'000	Provision for impairment of assets RMB'000	Unrealised gains resulting from intra group transactions RMB'000	Contract liabilities RMB'000	Accruals RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2017	521	57	2,041	4,634	3,887	—	11,140
Deferred tax credited to profit or loss during the year (note 10)	77	64	6,457	522	2,287	1,200	10,607
Gross deferred tax assets at 31 December 2017	598	121	8,498	5,156	6,174	1,200	21,747
At 1 January 2018	**598**	**121**	**8,498**	**5,156**	**6,174**	**1,200**	**21,747**
Effect on adoption of HKFRS 9 (note 2.2)	**—**	**586**	**—**	**—**	**—**	**—**	**586**
Deferred tax credited/(charged) to profit or loss during the year (note 10)	**351**	**808**	**(8,280)**	**(989)**	**2,793**	**1,432**	**(3,885)**
Gross deferred tax assets at 31 December 2018	**949**	**1,515**	**218**	**4,167**	**8,967**	**2,632**	**18,448**

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16. DEFERRED TAX (Continued)

Deferred tax liabilities

	Withholding tax on distributable profits of the Group's PRC subsidiaries RMB'000
At 1 January 2018	**16,390**
Deferred tax charged to profit or loss during the year (note 10)	**2,221**
Settlement during the year	**(14,250)**
Gross deferred tax liabilities at 31 December 2018	**4,361**

	Withholding tax on distributable profits of the Group's PRC subsidiaries RMB'000
At 1 January 2017	16,390
Deferred tax charged to profit or loss during the year (note 10)	3,500
Settlement during the year	(3,500)
Gross deferred tax liabilities at 31 December 2017	16,390

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between the Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the Mainland China in respect of earnings generated since 1 January 2008. Deferred taxes of RMB3,500,000 and RMB2,221,000 have been recognised for withholding taxes that would be payable on the unremitted earnings for the years ended 31 December 2017 and 2018, respectively.

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16. DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

The aggregate amounts of temporary differences associated with investments in subsidiaries in the Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB206,087,000 and RMB353,795,000 as at 31 December 2017 and 2018, respectively. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The Group had tax losses arising in Hong Kong of RMB3,334,000 and RMB3,334,000 as at 31 December 2017 and 2018, respectively. These tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

17. INVENTORIES

	2018 **RMB'000**	2017 RMB'000
Raw materials	**26,855**	20,073
Work in progress	**2,051**	2,852
Finished goods	**81,711**	49,308
Consumables	**11,669**	9,414
	122,286	81,647

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18. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**241,690**	177,496
Bills receivable	**3,972**	1,450
Impairment	**(6,060)**	(484)
	239,602	178,462

The Group's trading terms with its sales channels are mainly on credit. The credit period is generally one month, extending up to three months for major sales channels. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified sales channels, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 month	**186,513**	146,013
1 to 2 months	**22,839**	18,101
2 to 3 months	**12,815**	5,625
Over 3 months	**17,435**	8,723
	239,602	178,462

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For the year ended 31 December 2018

18. TRADE AND BILLS RECEIVABLES (Continued)

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	**484**	140
Effect on adoption of HKFRS 9 (note 2.2)	**2,343**	—
Impairment losses recognised (note 6)	**3,233**	344
At end of year	**6,060**	484

The ageing analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2018 RMB'000	2017 RMB'000
Neither past due nor impaired	**197,697**	136,757
Less than 1 month past due	**15,387**	11,052
1 to 3 months past due	**18,844**	26,103
More than 3 months past due	**7,674**	4,550
	239,602	178,462

Trade receivables that were neither past due nor impaired relate to a large number of diversified sales channels for whom there was no recent history of default.

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

The Group's bills receivable were all aged within six months and were neither past due nor impaired.

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18. TRADE AND BILLS RECEIVABLES (Continued)

From 1 January 2018, the Group has applied the simplified approach to provide impairment for ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the ECLs, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. The Group considers the historical loss rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate. As at 31 December 2018, the Group estimated that the expected loss rate for bills receivables is minimal and the expected loss rate for the trade receivables is determined according to provision matrix as follows:

	Neither past due nor impaired	Less than 1 month past due	1 to 2 months past due	2 to 3 months past due	More than 3 months past due	Total
31 December 2018						
Trade receivables (RMB'000)	193,918	15,542	12,500	6,941	12,789	241,690
Expected credit loss rate	0.1%	1.0%	2.0%	5.0%	40.0%	2.5%
Expected credit losses (RMB'000)	193	155	250	347	5,115	6,060

19. AVAILABLE-FOR-SALE INVESTMENTS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Available-for-sale investments	**—**	85,000
Financial assets at fair value through profit or loss	**71,400**	—
Unlisted investments:		
Wealth management products, at fair value	**—**	85,000
Investment funds, at fair value	**71,400**	—
	71,400	85,000

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19. AVAILABLE-FOR-SALE INVESTMENTS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

As at 31 December 2018, the Group had investment funds denominated in RMB, with expected rates of return of 3.6% per annum and maturity periods of 3 months. As at 31 December 2017, the Group had wealth management products denominated in RMB, with expected rates of return ranging from 3.8% to 4.97% per annum and maturity periods ranging from 1 day to 3 months. The fair values of the wealth management products and investment funds approximate to their carrying values. As explained in note 2.2 to the financial statements, the Group reclassified the balance of available-for-sale investments to financial assets at fair value through profit or loss on 1 January 2018 due to the adoption of HKFRS 9.

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments	**16,754**	22,650
Deposits	**4,657**	4,434
Value-added tax recoverable	**14,401**	8,740
Employee advances	**7,982**	5,982
Other receivables	**14,769**	43,235
Current portion of prepaid land lease payments (note 14)	**860**	860
	59,423	85,901

Except for a loan to an independent third party amounting to RMB33 million as at 31 December 2017 which bears interest at 9% per annum, receivables are unsecured, interest-free and repayable on demand.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Since 1 January 2018, the Group has applied the general approach to provide for expected credit losses for financial assets included in prepayments, other receivables and other assets under HKFRS 9. The Group considers the historical loss rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate. The Group has classified financial assets included in prepayments, other receivables and other assets in stage 1 and continuously monitors their credit risk. As at 31 December 2018, the Group estimated that the expected loss rate for financial assets included in prepayments, other receivables and other assets is insignificant.

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21. AMOUNTS DUE FROM/(TO) DIRECTORS

(1) Amounts due from directors:

Loans to directors, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

	Note	At 1 January 2017 RMB'000	Maximum amount outstanding during the year RMB'000	At 31 December 2017 and 1 January 2018 RMB'000	Maximum amount outstanding during the year RMB'000	At 31 December 2018 RMB'000
Mr. NG Benjamin Jin-ping	(i)	**354**	**354**	**—**	**—**	**—**
Mr. Wang Duo	(i)	**354**	**354**	**—**	**—**	**—**
		708	**708**	**—**	**—**	**—**

(i) Mr. NG Benjamin Jin-ping is a director of the Company and Mr. Wang Duo is a former director of the Company. These balances were unsecured, interest-free, had no fixed term of repayment and were non-trade in nature. The balances had been fully repaid in December 2017.

(2) Amounts due to directors:

	Notes	At 1 January 2017 RMB'000	Maximum amount outstanding during the year RMB'000	At 31 December 2017 and 1 January 2018 RMB'000	Maximum amount outstanding during the year RMB'000	At 31 December 2018 RMB'000
Mr. Yang Zhuoya	(i)	2,505	2,505	2,341	2,341	—
Ms. Gui Changqing	(ii)	5,000	5,000	—	13,223	—
		7,505	7,505	2,341	15,564	—

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21. AMOUNTS DUE FROM/(TO) DIRECTORS (Continued)

(2) Amounts due to directors: (Continued)

(i) The balance was unsecured, interest-free, had no fixed term of repayment and was non-trade in nature. The balance has been fully repaid in March 2018.

(ii) Ms. Gui Changqing is a director of the Company. The balance as at 1 January 2017 was unsecured, interest-free, had no fixed term of repayment and was non-trade in nature. The balance had been fully repaid in February 2017. For the year ended 31 December 2018, the amount due to Ms. Gui Changqing was unsecured with the principal amount of HKD15,000,000 and interest rate of 5% per year, was non-trade in nature and was fully repaid in November 2018.

22. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	2018 **RMB'000**	2017 RMB'000
Cash and bank balances	**604,913**	227,119
Time deposits	**25,000**	—
	629,913	227,119
Less: Time deposits	**(25,000)**	—
Cash and cash equivalents	**604,913**	227,119
Denominated in:		
— RMB	**252,806**	179,212
— HK$	**377,107**	47,907
	629,913	227,119

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. The time deposits were made for one year and earned interest at the time deposit rate. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

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23. TRADE PAYABLES

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

	2018 RMB'000	2017 RMB'000
Within 1 month	**62,491**	65,869
1 to 2 months	**6,081**	3,766
2 to 3 months	**2,057**	1,126
Over 3 months	**1,492**	1,558
	72,121	72,319

The trade payables are non-interest-bearing and are normally settled on 15 to 60 days' terms.

24. CONTRACT LIABILITIES

	2018 RMB'000	2017 RMB'000
Contract liabilities	**16,669**	20,623

Contract liabilities represented the obligations to transfer goods to customers for which the Group has received consideration. The changes in contract liabilities are mainly attributable to the Group's estimates of the loyalty points that will be redeemed subsequent to the end of the year.

The following table shows the revenue recognised during the year related to carried-forward contract liabilities:

	2018 RMB'000	2017 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**20,623**	18,535

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24. CONTRACT LIABILITIES (Continued)

The following table shows the unsatisfied performance obligations as at 31 December 2017 and 2018:

	2018 RMB'000	2017 RMB'000
Current	**16,669**	20,623

25. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'0000
Accruals	**37,047**	32,895
Payables for purchase of materials and equipment	**6,695**	4,161
Deposits	**1,724**	189
Salaries and welfare payables	**56,471**	52,969
Other tax payables	**18,162**	16,747
Other payables	**17,258**	9,122
	137,357	116,083

Other payables are non-interest-bearing and repayable on demand.

26. INTEREST-BEARING BORROWING

2018	**Effective interest rate (%)**	**Maturity**	**RMB'000**
Current			
Borrowing from a financial institution	4.7	9 March 2019	70,096

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26. INTEREST-BEARING BORROWING (Continued)

Analysed into:

	2018 RMB'0000	2017 RMB'000
Borrowing repayable:		
Within one year or on demand	**70,096**	-—

The Group's loan is in Hong Kong Dollars which was borrowed from a financial institution. The loan has been fully repaid in January 2019.

27. CONVERTIBLE AND REDEEMABLE PREFERRED SHARES

	2018 RMB'000	2017 RMB'000
Convertible and redeemable preferred shares	**—**	222,287

The Company has issued convertible and redeemable preferred shares ("preferred shares") as follows:

	Date of issuance	Number of shares	Total consideration RMB'000
Preferred shares	29 January 2010	3,045	50,000
Preferred shares	29 January 2010	450	5,250
Preferred shares	13 June 2011	837	20,000

The key terms of the preferred shares are summarised as follows:

(a) Dividend preference

The holders of the preferred shares shall be entitled to receive cumulative dividends in preference to any dividend on the ordinary shares at the rate of 8% of the purchase price per annum, when and as declared by the board of directors. No dividend shall be paid on any other class of shares of the Company unless and until a dividend in a like amount is first paid in full on the preferred shares on an as-if-converted basis.

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27. CONVERTIBLE AND REDEEMABLE PREFERRED SHARES (Continued)

(b) Liquidation preference

In the event of any liquidation event (including customarily-deemed-liquidation events such as acquisition), the holders of the preferred shares would be entitled to receive in preference to the holders of the ordinary shares a per share amount equal to the per share purchase price plus an internal rate of return ("IRR") of 15% and any declared but unpaid dividends (the "Preference Amount"), proportionately adjusted for share splits, share dividends, recapitalisations and the like. After the full liquidation and the Preference Amount has been paid on all preferred shares, any remaining assets of the Company or proceeds received by the Company or its shareholders shall be distributed to the holders of ordinary shares and the preferred shares pro rata on an as-if-converted basis

(c) Redemption rights

Beginning on the fifth anniversary of the closing date, the holders of a majority of the then outstanding preferred shares may require the Company to redeem new issued outstanding preferred shares at a redemption price equal to the per share purchase price plus an IRR of 15% and all accrued but unpaid dividends (the "Redemption Price for New Shares"), and redeem the outstanding preferred shares converted from existing ordinary shares purchased by the investors at a redemption price equal to the per ordinary share purchase price plus an internal IRR of 6% and all accrued but unpaid dividends (the "Redemption Price for Existing Shares"), proportionally adjusted for share splits, share dividends, recapitalisations and the like.

If on the date of redemption (the "Redemption Date"), the number of preferred shares that may then be legally redeemed by the Company is less than the number of preferred shares to be redeemed, then any unredeemed preferred shares will be carried forward and redeemed as soon as the Company is legally able to do so. If the Company does not have sufficient cash available to legally redeem all of the preferred shares required to be redeemed, the remainder will be paid in the form of a one-year note to such holders bearing interest at 15% and the holders of preference shares will be entitled to elect the original number of directors of the board until such amounts are paid in full.

(d) Conversion rights

Each holder of preferred shares will have the right, at its sole discretion, to convert all or any portion of its preferred shares into ordinary shares at any time after the closing date. The initial conversion price will be the purchase price, resulting in an initial conversion ratio of 1:1, subject to adjustment terms.

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27. CONVERTIBLE AND REDEEMABLE PREFERRED SHARES (Continued)

(e) General anti-dilution conversion price and ratio adjustments

The conversion price and ratio will be proportionally adjusted for share splits, share dividends, recapitalisations and similar transactions.

In the event that the Company issues additional equity securities at a price less than the then-applicable conversion price for the preferred shares, the conversion price of the preferred shares shall be reduced to a price equal to the issue price per share of the new issue, except for issuances (i) pursuant to the employment-related share purchase or option plans; (ii) upon conversion of preferred shares or upon exercise of outstanding options or warrants; (iii) in an underwritten registered public offering by the Company; or (iv) in connection with any stock split, stock dividend, recapitalisation or similar transaction for which proportional adjustments are made ("Excluded New Issuances").

The convertible and redeemable preferred shares were designated as financial liabilities at fair value through profit or loss on initial recognition. At the end of the reporting period subsequent to initial recognition, all convertible and redeemable preferred shares are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

The movements of the preferred shares are set out below:

	Number of preferred shares	Preferred shares RMB'000
At 1 January 2017	4,332	399,634
Converted to ordinary shares	(2,250)	(179,543)
Arising from fair value changes	—	2,196
At 31 December 2017 and 1 January 2018	2,082	222,287
Share split (note 29)	208,197,918	—
Arising from fair value changes	—	75,706
Converted to ordinary shares	(208,200,000)	(297,993)
At 31 December 2018	—	—

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27. CONVERTIBLE AND REDEEMABLE PREFERRED SHARES (Continued)

(e) General anti-dilution conversion price and ratio adjustments (Continued)

Mr. Zhang Zejun entered into a share transfer framework agreement with SAIF and the Company on 13 September 2017, pursuant to which Mr. Zhang Zejun agreed to acquire 1,800 preferred shares from SAIF. In addition, SAIF agreed to sell 450 preferred shares to Vision Legend Holdings Limited, an independent third party. The acquisition by Mr. Zhang Zejun and the share transfer to Vision Legend were completed on 2 November 2017 and upon which the preferred shares were re-designated as common shares.

The fair value of convertible and redeemable preferred shares is determined by using valuation techniques. The Group has used the discounted cash flow method to determine the underlying share value of the Company and adopted the option pricing method to allocate the equity value to determine the fair value of the convertible and redeemable preferred shares. Key valuation assumptions used to determine the fair value of convertible and redeemable preferred shares as at 31 December 2017 included discount rate (post-tax) of 15.19%, risk-free interest rate of 1.21%, discounts for lack of marketability of 16% and volatility of 24.96%.

The discount rate (post-tax) was estimated by the weighted average cost of capital as of each valuation date. The Group has estimated the risk-free interest rate based on the yield of the Hong Kong Government Bond with a maturity life close to the expected life of preferred shares as of the valuation date. The discounts for lack of marketability adopted were referenced to the Future Market Value Restricted Stock Study. Volatility was estimated based on annualised standard deviation of the daily stock price return of comparable companies for a period from the respective valuation dates with a similar span as the expected life of preferred shares. Probability weight under each of the redemption features and liquidation preferences was incorporated in the valuation of preferred shares through the binomial option pricing model.

In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of preferred shares as at 31 December 2017. The equity value has been determined using a discounted cash flow model. The valuation requires management to make certain assumptions about unobservable inputs to the model. The significant unobservable inputs include the weighted average cost of capital of 15.19%, average revenue growth rate of 16.97% and terminal growth rate of 3%. An increase in the weighted average cost of capital used to discount the forecast cash flows and decrease in the average revenue growth rate and terminal growth rate would lead to a decrease in the equity value. The significant unobservable inputs are not interrelated.

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27. CONVERTIBLE AND REDEEMABLE PREFERRED SHARES (Continued)

(e) General anti-dilution conversion price and ratio adjustments (Continued)

On 12 December 2018, the Company has successfully listed on the Main Board of the Stock Exchange and made an offering of 421,000,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price of HK$1.62 per share. The Company used this offering price to determine the underlying convertible and redeemable preferred shares value of the Company as at 12 December 2018 accordingly. All convertible and redeemable preferred shares were converted into ordinary shares upon completion of the initial public offering on 12 December 2018.

28. DEFERRED INCOME

Government grants	RMB'000
At 1 January 2017	655
Addition	—
Recognised during the year	(189)
At 31 December 2017 and 1 January 2018	466
Addition	—
Recognised during the year	(189)
At 31 December 2018	277

29. SHARE CAPITAL

	2018 **RMB'000**	2017 RMB'000
Issued and fully paid:		
2,221,000,000 (2017: 15,918) ordinary shares	**149**	106

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29. SHARE CAPITAL (Continued)

A summary of movements in the Company's share capital is as follows:

	Number of ordinary shares	Share capital
		RMB'000
At 1 January 2017	13,668	91
Conversion from preferred shares (note 27)	2,250	15
At 31 December 2017 and 1 January 2018	15,918	106
Share split	1,591,784,082	—
Issuance of ordinary shares upon listing	421,000,000	29
Conversion from preferred shares (note 27)	208,200,000	14
At 31 December 2018	2,221,000,000	149

As at 31 December 2017, 15,918 ordinary shares of USD1 each were allotted and issued by the Company with total issued share capital of USD15,918 (equivalent to approximately RMB106,000).

On 12 December 2018, the issued share capital of the Company was altered to USD15,918 divided into 1,591,800,000 common shares with a par value of USD0.00001 each and 208,200,000 convertible and redeemable preferred shares preferred shares with a par value of USD0.00001 each.

All convertible and redeemable preferred shares were converted into ordinary shares upon completion of the initial public offering on 12 December 2018.

On 12 December 2018, in connection with the Company's IPO, 421,000,000 new ordinary shares of the Company of USD0.00001 each were issued at a price of HK$1.62 per share.

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For the year ended 31 December 2018

30. RESERVES

The amounts of the Group's reserves and the movements therein for each of the years are presented in the consolidated statement of changes in equity on page 68 of this report.

(a) Share premium

The share premium represents the difference between the par value of the shares issued and the consideration paid.

(b) Merger reserve

The merger reserve represents the difference between the aggregate of the paid up share capital of the subsidiaries and the consideration paid by the Group for the business combination under common control.

(c) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

(d) Statutory surplus reserve

In accordance with the Company Law of the PRC, each of the Company's subsidiaries registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with PRC Generally Accepted Accounting Principles, to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2017, Mr. Zhang Zejun entered into a share transfer framework agreement with SAIF and the Company on 13 September, 2017, pursuant to which Mr. Zhang Zejun agreed to acquire 1,800 preferred shares from SAIF. In addition, SAIF agreed to sell 450 preferred shares to Vision Legend Holdings Limited, an independent third party. The acquisition by Mr. Zhang Zejun and the share transfer to Vision Legend Holdings Limited were completed on 2 November 2017 and upon which the preferred shares were re-designated as common shares.

During the year ended 31 December 2018, all convertible and redeemable preferred shares were converted into ordinary shares upon completion of the initial public offering on 12 December 2018.

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For the year ended 31 December 2018

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(b) Changes in liabilities arising from financing activities (Continued)

	Bank and interest-bearing borrowings RMB'000	Convertible and redeemable preferred shares RMB'000	Amounts due to directors RMB'000	Amounts due to related parties RMB'000
At 1 January 2017	4,784	399,634	7,505	41,213
Accretion of interest expenses	216	—	—	—
Repayment of a loan	(5,000)	—	—	—
Changes in fair value	—	2,196	—	—
Conversion to ordinary shares		(179,543)	—	—
Changes from operating cash flows	—	—	(5,000)	(3,374)
Unrealised exchange gain	—	—	(164)	(2,344)
At 31 December 2017 and 1 January 2018	—	222,287	2,341	35,495
Proceeds from a loan	246,106	—	—	—
Accretion of interest expenses	241	—	—	—
Repayment of a loan	(176,388)	—	—	—
Changes in fair value	—	75,706	—	—
Conversion to ordinary shares	—	(297,993)	—	—
Changes from operating cash flows	—	—	(2,341)	(2,059)
Increase from financing cash flows	—	—	13,028	—
Decrease from financing cash flows	—	—	(13,028)	(33,436)
Unrealised exchange gain	137	—	—	—
At 31 December 2018	70,096	—	—	—

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For the year ended 31 December 2018

32. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for office are for terms ranging from one to five years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	**4,464**	5,863
In the second to fifth years	**261**	2,853
	4,725	8,716

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the end of the reporting period:

	2018	2017
	RMB'000	RMB'000
Capital commitments	**104,034**	30,083

As at 31 December 2017 and 2018, the amounts of the capital commitments were related to the purchase of intangible assets and property, plant and equipment.

Notes to Financial Statements

For the year ended 31 December 2018

34. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

(1) Sales of goods to a related party:

	Note	2018 RMB'000	2017 RMB'000
Shenzhen Jingya Natural Food Science and Technology Co., Ltd.("Shenzhen Jingya")	(i)	**2,332**	3,081

The sales prices offered to the related party were based on a cost-plus approach with a mark-up margin.

(i) Shenzhen Jingya is controlled by Wei Qiuping, the sister-in-law of Mr. Zhang Zejun. Shenzhen Jingya purchased goods from the Group during the years of 2017 and 2018.

(2) Purchases of raw materials from a related party:

	Note	2018 RMB'000	2017 RMB'000
Zhaotong Senbao Agricultural Trade Co., Ltd. ("Zhaotong Senbao")	(ii)	**—**	14,995

The purchases from the related party were made according to the terms negotiated between the Group and the related party with reference to the published price.

(ii) During the period from 27 May 2014 to 31 August 2017, Ms. Yang Chunping, the sister-in-law of Mr. Yang Zhuoya, a former director of the Company, was the shareholder of Zhaotong Senbao.

(3) Services from a related party:

	Note	2018 RMB'000	2017 RMB'000
Guangxi Guiping Jingui Human Resources Co Ltd. ("Guiping Jingui")	(iii)	**64,304**	51,106

(iii) The Group received labour services from Guiping Jingui pursuant to the terms negotiated between the Group and Guiping Jingui. Ms. Yang Chunping, the sister-in-law of Mr.Yang Zhuoya, a former director of the Company, was the shareholder of Guiping Jingui during the period from 16 May 2014 to 8 June 2018.

Notes to Financial Statements

For the year ended 31 December 2018

34. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

(4) Interest income from a related party:

	2018 RMB'000	2017 RMB'000
Mr. Yang Changya (note 34(c)(1)(i))	**63**	150

(5) Finance costs to a related party:

	2018 RMB'000	2017 RMB'000
Ms. Gui Changqing (note 7)	**195**	—

(b) Other transactions with directors

During the years of 2017 and 2018, the Group has entered into an intellectual property licence agreement with Ms. Gui Changqing. Pursuant to the agreement, Ms. Gui Changqing had granted to the Group and its subsidiaries existing as at the date of the agreement an exclusive licence to use six trademarks. These trademarks were licensed to the Group and its subsidiaries on a royalty-free basis until the date of expiry of registration of such trademarks.

(c) Outstanding balances with related parties

(1) Amounts due from related parties:

	Notes	2018 RMB'000	2017 RMB'000
Mr. Yang Changya	(i)	**—**	3,350
Shenzhen Jingya	(ii)	**9,375**	10,090
		9,375	13,440

(i) Mr. Yang Changya is the brother of Mr. Yang Zhuoya, a former director of the Company. The amount due from Mr. Yang Changya was unsecured with the principal amount of RMB3,000,000 and interest rate of 5% per year, was non-trade in nature and was fully repaid in May 2018.

(ii) The balance of Shenzhen Jingya is unsecured, interest-free and repayable on demand. Included in the balance are trade receivables of RMB6,738,000 from Shenzhen Jinya as at 31 December 2017. The remaining amounts are non-trade in nature. The entire as at 31 December 2018 is trade in nature.

Notes to Financial Statements

For the year ended 31 December 2018

34. RELATED PARTY TRANSACTIONS (Continued)

(c) Outstanding balances with related parties (Continued)

(2) Amounts due to related parties:

	Notes	**2018 RMB'000**	2017 RMB'000
Mr. Xiao Shu	(iii)	**—**	33,436
Guiping Jingui	(iv)	**—**	2,059
		—	35,495

(iii) Mr. Xiao Shu is a shareholder of the Company. The balance is unsecured, interest-free, non-trade in nature and was fully repaid in July 2018.

(iv) The balance is unsecured, interest-free, trade in nature and repayable on a credit term of 10 days. As at 31 December 2018, the amount due to Guiping Jingui was included in other payables and accruals as Guiping Jingui was no longer a related party of the Company since 8 June 2018 (note 34(a)(3)(iii)).

(d) Compensation of key management personnel of the Group:

	2018 RMB'000	2017 RMB'000
Short term employee benefits	**1,763**	1,024
Post-employment benefits	**90**	104
	1,853	1,128

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

The related party transactions in respect of items (a)(1) and (b) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each category of financial instruments as at the end of the reporting period are as follows:

2018

Financial assets

	Financial assets at fair value through profit or loss		
	Designated as such upon initial recognition RMB'000	Financial assets amortised cost RMB'000	Total RMB'000
Trade and bills receivables	—	239,602	239,602
Financial assets included in prepayments, other receivables and other assets	—	19,426	19,426
Amounts due from related parties	—	9,375	9,375
Time deposits	—	25,000	25,000
Cash and cash equivalents	—	604,913	604,913
Financial assets at fair value through profit or loss	71,400	—	71,400
	71,400	898,316	969,716

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	72,121
Financial liabilities included in other payables and accruals	18,280
Interest-bearing borrowing	70,096
	160,497

Notes to Financial Statements

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35. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2017

Financial assets

	Available-for-sale financial assets RMB'000	**Loans and receivables** RMB'000	**Total** RMB'000
Trade and bills receivables	—	178,462	178,462
Financial assets included in prepayments, other receivables and other assets	—	53,651	53,651
Amounts due from related parties	—	13,440	13,440
Cash and cash equivalents	—	227,119	227,119
Available-for-sale investments	85,000	—	85,000
	85,000	472,672	557,672

Financial liabilities

	Financial liabilities at fair value through profit or loss		
	Designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	—	72,319	72,319
Financial liabilities included in other payables and accruals	—	7,293	7,293
Amount due to directors	—	2,341	2,341
Amounts due to related parties	—	35,495	35,495
Dividend payable	—	7,433	7,433
Convertible and redeemable preferred shares	222,287	—	222,287
	222,287	124,881	347,168

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36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2017 and 2018, the fair values of the Group's financial assets or financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, a dividend payable, an interest-bearing borrowing, and amounts due from/to directors and related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The directors review the results of the fair value measurement of financial instruments periodically for financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of convertible and redeemable preferred shares are determined by using valuation techniques. The Group has used the discounted cash flow method to determine the underlying equity value of the Company and adopted the option pricing method to allocate the equity value to determine the fair value of the convertible and redeemable preferred shares. Key assumptions, such as the discount rate, risk-free interest rate, discount for lack of marketability and volatility are disclosed in note 27 to the financial statements.

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36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Below is a summary of significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity as at 31 December 2017 are shown below:

	Valuation technique	Significant unobservable input	(Range of) input As at 31 December 2017	Sensitivity of fair value to the input increase/ decrease by 10%
Convertible and redeemable preferred shares	Option pricing method	Discount rate	15.19%	10% increase/decrease in discount rate would result in (decrease)/ increase in fair value by (18,075,141)/26,295,126 for 2017
		Risk-free interest rate	1.21%	10% increase/decrease in risk-free interest rate would result in (decrease)/increase in fair value by (76,060)/77,651 for 2017
		Discount for lack of marketability	16%	10% increase/decrease in discount for lack of marketability would result in increase in fair value by 608/296 for 2017
		Volatility	24.96%	10% increase/ decrease in volatility would result in increase/ (decrease)in fair value by 1,765,696/(1,631,167) for 2017
		Equity value	2,437 million	10% increase/decrease in equity value would result in increase/ (decrease)in fair value by 18,720,383/(16,848,985) for 2017

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36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using		
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
As at 31 December 2018			
Financial assets at fair value through profit or loss	—	71,400	—
As at 31 December 2017			
Available-for-sale investments	—	85,000	—

Liabilities measured at fair value:

	Fair value measurement using		
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
As at 31 December 2018			
Convertible and redeemable preferred shares	—	—	—
As at 31 December 2017			
Convertible and redeemable preferred shares	—	—	222,287

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise available-for-sale investments, financial assets at fair value through profit or loss, an interest-bearing borrowing, convertible and redeemable preferred shares and cash and cash equivalents. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in exchange rate, with all other variables held constant, of the Group's profit before tax and equity.

	Increase/ (decrease) in exchange rate (%)	Increase/ (decrease) in profit before tax and equity RMB'000
2018		
If RMB weakens against HK$	**5**	**14,906**
If RMB strengthens against HK$	**(5)**	**(14,906)**
2017		
If RMB weakens against HK$	5	890
If RMB strengthens against HK$	(5)	(890)

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group sells its products to end-customers via a chain of retail outlets or over third-party online retail platforms. It is the Group's policy that all sales channels who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, and amounts due from directors and related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs			Lifetime ECLs	
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables*	—	—	—	239,602	239,602
Financial assets included in prepayments, other receivables and other assets					
— Normal**	19,426	—	—	—	19,426
Amounts due from related parties					
— Normal**	9,375	—	—	—	9,375
Time deposits					
— Not yet past due	25,000	—	—	—	25,000
Cash and cash equivalents					
— Not yet past due	604,913	—	—	—	604,913
	658,714	—	—	239,602	898,316

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 18 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets, and amounts due from related parties is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

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For the year ended 31 December 2018

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from related parties, other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with the end-customers, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical regions. There are no significant concentrations of credit risk within the Group as the sales channel bases of the Group's trade receivables are widely dispersed in a large number of diversified retail outlets or third-party online retail platforms.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in notes 18 and 20 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2018					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	62,491	8,138	1,492	—	—	72,121
Financial liabilities included in other payables and accruals	8,419	9,861	—	—	—	18,280
Interest-bearing borrowing	—	70,710	—	—	—	70,710
	70,910	88,709	1,492	—	—	161,111

Notes to Financial Statements

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	2017					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	65,869	4,892	1,558	—	—	72,319
Financial liabilities included in other payables and accruals	4,351	600	2,342	—	—	7,293
Amounts due to directors	2,341	—	—	—	—	2,341
Amounts due to related parties	35,495	—	—	—	—	35,495
Dividend payable	7,433	—	—	—	—	7,433
Convertible and redeemable preferred shares*	85,028	—	—	—	—	85,028
	200,517	5,492	3,900	—	—	209,909

* The amount represents the redemption value of the convertible and redeemable preferred shares.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to the shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the reporting periods.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is total debt divided by total assets. Total debt includes amounts due to related parties and directors, an interest-bearing borrowing, convertible and redeemable preferred shares and a dividend payable. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratios as at the end of the reporting periods were as follows:

	2018	2017
	RMB'000	RMB'000
Amounts due to related parties	**—**	35,495
Amounts due to directors	**—**	2,341
Interest-bearing borrowing	**70,096**	—
Convertible and redeemable preferred shares	**—**	222,287
Dividend payable	**—**	7,433
Total debts	**70,096**	267,556
Total assets	**1,401,276**	868,281
Gearing ratio	**5%**	31%

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38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**86,990**	82,990
Total non-current assets	**86,990**	82,990
CURRENT ASSETS		
Amounts due from subsidiaries	**433,363**	74,024
Cash and cash equivalents	**286,104**	9,620
Total current assets	**719,467**	83,644
CURRENT LIABILITIES		
Amounts due to subsidiaries	**6,192**	1,698
Dividend payable	**—**	7,433
Other payables	**8,999**	—
Convertible and redeemable preferred shares	**—**	222,287
Interest-bearing borrowing	**70,096**	—
Total current liabilities	**85,287**	231,418
NET CURRENT ASSETS/(LIABILITIES)	**634,180**	(147,774)
TOTAL ASSETS LESS CURRENT LIABILITIES	**721,170**	(64,784)
NET ASSETS/(LIABILITIES)	**721,170**	(64,784)
EQUITY		
Share capital	**149**	106
Reserves (note)	**721,021**	(64,890)
Total equity/(deficit)	**721,170**	(64,784)

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38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	185,761	11,536	(433,385)	(236,088)
Profit for the year	—	—	65,201	65,201
Translation from functional currency to presentation currency	—	(13,345)	—	(13,345)
Total comprehensive income for the year	—	(13,345)	65,201	51,856
Conversion of preferred shares (note 27)	179,528	—	—	179,528
Special dividend declared to shareholders	—	—	(60,186)	(60,186)
At 31 December 2017 and 1 January 2018	365,289	(1,809)	(428,370)	(64,890)
Profit for the year	—	—	165,899	165,899
Translation from functional currency to presentation currency	—	(16,932)	—	(16,932)
Total comprehensive income for the period	—	(16,932)	165,899	148,967
Conversion of preferred shares (note 27)	297,979	—	—	297,979
Issue of shares for the IPO	602,542	—	—	602,542
Share issue expenses	(43,506)	—	—	(43,506)
Special dividend declared to shareholders	—	—	(220,071)	(220,071)
At 31 December 2018	1,222,304	(18,741)	(482,542)	721,021

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2019.

Financial Summary

CONSOLIDATED RESULTS

	Note	FY2018 RMB'000	FY2017 RMB'000	FY2016 RMB'000	FY2015 RMB'000
Revenue		**1,818,066**	1,576,145	1,205,504	937,085
Cost of sales		**(427,398)**	(374,325)	(276,983)	(248,820)
Gross profit		**1,390,668**	1,201,820	928,521	688,265
Other income and gains		**21,970**	15,624	14,604	10,002
Selling and distribution expenses		**(1,070,944)**	(926,094)	(734,772)	(567,228)
Administrative expenses		**(133,161)**	(85,603)	(69,584)	(39,938)
Impairment loss on financial assets		**(3,233)**	(344)	—	—
Other expenses		**(1,525)**	(876)	(2,179)	(1,730)
Finance costs		**(436)**	(216)	(964)	—
Loss on fair value changes of convertible and redeemable preferred shares		**(75,706)**	(2,196)	(27,102)	(56,074)
Profit before tax		**127,633**	202,115	108,254	33,297
Income tax expenses		**(22,394)**	(16,416)	(20,647)	(4,618)
Profit for the year		**105,239**	185,699	87,607	28,679
Attributable to:					
Owners of the parent		**105,239**	185,699	87,607	28,679
Adjusted net profit	1	**213,001**	188,461	115,130	85,174

Note 1. Adjusted net profit represents profit for the year before loss on fair value changes of convertible and redeemable preferred shares and listing expenses. Adjusted net profit is not a standard measure under HKFRSs. To supplement the Group's consolidated financial statements which are presented in accordance with HKFRS, the Group has presented adjusted net profit as an additional measure to evaluate the financial performance of the Group by considering the impact of certain items that the Group believes is frequently used by analysts, investors and other interested parties in the evaluation of companies in the industry that the Group operates and by eliminating the impact of certain unusual and non-recurring item that the Group does not consider indicative of the performance of the Group's business.

Financial Summary

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December,			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,401,276**	868,281	690,041	557,924
Total liabilities	**328,451**	511,205	638,169	519,882
Total equity	**1,072,825**	357,076	51,872	38,042