Tianyun International Holdings Limited
天韻國際控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

Stock Code : 6836.HK

More FRESH and HEALTHY CHOICES

ANNUAL REPORT

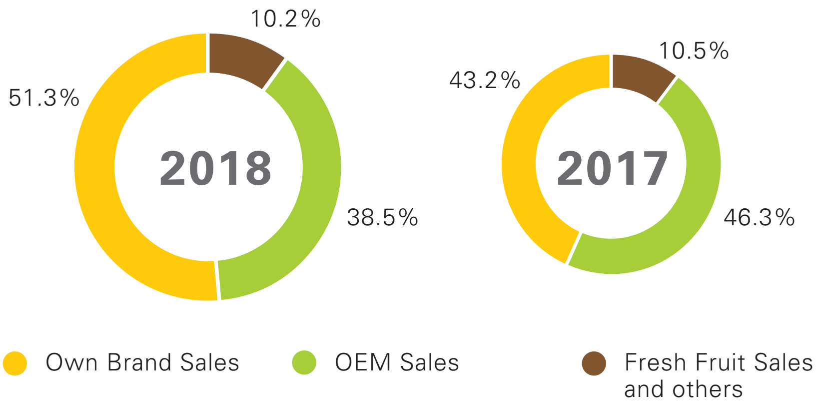
2018

Contents

Financial Highlights

Revenue (RMB million)

Revenue by Business Segment



Gross Profit (RMB million)

Net Profit (RMB million)

Gross Profit Margin (%)

Net Profit Margin (%)

Dividend Per Share (HK cents)

2018	2017
4.4 cents	4.2 cents

Dividend Yield [Note] (%)

2018	2017
3.2%	3.0%

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

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Tianyun International Holdings Limited (the "Company" or "Tianyun International") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present our annual report for the year ended 31 December 2018 (the "Year under Review").

Through tireless efforts from the Group's entire staff team and with management's excellent operational execution and effectiveness of its development strategy, the Group has garnered fruitful results in both business expansion and internal improvements. Sales climbed steadily and annual results continued to maintain robust and rapid growth. Among such accomplishments, the Group has achieved positive progress in the areas of brand reputation, new product categories, industrial partnerships, strategic investments and future development strategies.

During the Year under Review, the Group recorded increases in revenue, gross profit and net profit of 26.2%, 28.9% and 19.3% to RMB940.5 million, RMB263.3 million and RMB147.5 million, respectively. Basic earnings per share increased by 19.8% to RMB15.1 cents. Our own brand business continues to be successful as its revenue increased by 49.7% to RMB482.3 million, representing 51.3% of the Group's total revenue and constituting the Group's most significant segment revenue. The Group has gradually become a food and consumer goods enterprise led by our own brand. In view of the Company's excellent results and ample cash flow, the Board recommends the distribution of dividends of HK$0.027 per share for the end of 2018, bringing the dividend pay-out ratio for the year to 25.3%.

In recent years, in order to raise the Group's core competitiveness and build medium to long term competitive advantages, the Group has actively developed diversified products, continuously enriched our product line and promoted new and upgraded products to keep up with changes in consumer demand. By expanding sales channels, we have launched more product varieties and products with brand-new packaging, increased product visibility and heightened our interaction with consumers, raising consumer repetitive purchase rate. During the Year under Review, "霜淇淋", a pure fruit snack born out of our own research and development and production, was awarded the "Invention Patent Certificate" by the State Intellectual Property Office of PRC and was launched together with our new product "妖果季", receiving welcome feedback in the market and satisfactory sales momentum boosting our confidence in continuing with research and development of new products. Additionally, the Group's wholly-owned subsidiary, Tiantong Foods (Yichang) Ltd. (天同食品（宜昌）有限公司), being the Group's production and distribution base established in the central region of the PRC, experienced smooth expansion in capacity and business, which is of vital strategic significance to the Company's next step in expanding into the Central China market with our own brand products.

On the aspect of branding, thanks to the Group's long-term commitment in emphasizing product quality, food safety and research and development capability, the competitive edges of our products have been secured in every aspect. During the Year under Review, the Group adopted a proactive advertising and marketing strategy, comprehensively enhancing brand image of our own brand products. Our Group's own brand business with the brands, including "天同時代 (Tiantong Times)", "繽果時代 (Bingo Times)" and "果小懶 (fruit zz)" has developed and prospered, while geographical coverage of our products continues to expand rapidly. Currently, our sales network covers 24 provinces, direct municipalities and autonomous regions across China. The number of distributors has been successfully increased to approximately 210 through greater enhanced partnerships with distributors, strengthening our positioning in both online and offline development, bringing strong growth momentum to the sales of our own brand products.

Chairman's Statement

Further, Sichuan Development International Holding Company Limited (四川發展國際控股有限公司) has become the single largest substantial shareholder of the Company since 22 October 2018. This gives a high recognition to the Company. Meanwhile, the Group has entered into a memorandum of understanding with Sichuan Development Holding Company Limited (四川發展(控股)有限責任公司) for a planned investment of RMB1 billion in the next three years in agricultural food projects. It is strategically significant that both parties will fully leverage their own strengths in working together and realising various business synergies in medium to long-term development, laying vital groundwork for the Company to create a world-renowned brand and build an everlasting enterprise.

Over the past year, the Group has lived up to expectations and garnered fruitful results, which is inextricable from the massive support from our business partners and customers and the trust of consumers at large. I must also express my utmost gratitude to each and every staff member of the Company for their hard work and effort in the past year. The Group has always cherished our staff as prized assets, and to reward the efforts of the entire staff team of the Group, the Group has announced the adoption of a share reward scheme during the Year under Review, in the hopes of motivating the staff members within the Group to further drive the Group's development.

With the highest commitment to producing natural, healthy, nutritious and safe food products, the Group will continue to maintain a strategy of parallel development of our own brand and OEM business in the future, tap deeply into the development potential of the Group and combine with various mergers and acquisition strategies to further consolidate our market leading position. By expanding both international and domestic sales networks to increase our share of market sales, we will promote our quality agricultural and related processed food products to the world. Meanwhile, the Group's management will strive to comprehensively enhance the Group's operations, and through increasing deseasonalization, enhancing and extending product lines, continuously strengthening research and development capability for food and beverage products, enriching product varieties, enhancing product packaging and design, and expanding distributor networks, we will intensify brand promotional efforts and enhance positioning, further increasing the Group's revenue and profitability.

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, business partners, customers and consumers for their support and trust. As chairman and chief executive officer of the Group, I, together with our core management team, will remain steadfast in our position and continue to bring fresh dynamics to drive the Group's future growth and sustainable development, take the Company to greater heights, and bring maximum returns to our shareholders.

Sincerely,
Yang Ziyuan
Chairman and Chief Executive Officer

27 March 2019

Environmental, Social and Governance Report

Concept and Reporting Principles

This Environmental, Social and Governance Report (hereinafter "report") has been prepared with reference to the "Environmental, Social and Governance Reporting Guide" set out in Appendix 27 of the Listing Rules issued by HKEX and reviews the environmental, social and governance performance of the Group's three major business segments – own brand product production, OEM and fresh fruit sales during the Year under Review. The scope of this disclosure covers the production base of the Group located in Linyi City, Shandong Province, China.

The Group is committed to providing customers with natural, healthy, safe, delicious, and convenient processed fruit products, and at the same time upholds our long-standing development mission, which is to be "environmentally friendly, people-oriented, law-abiding, fair and trustworthy, and customer-focused". In 2018, the Group continued to improve energy efficiency and reduce emissions through a series of measures. In relation to corporate responsibility, through our Code of Production Operations Process, Safety Code and Staff Safety Code, the Group was dedicated towards safeguarding employees' rights and enhancing their safety awareness and corporate belonging. In relation to society contribution, the Group had shown their support and care for the society through various means, from investing resources into the society to organising various community activities. This section will elaborate in detail on the Group's vision of sustainable development and performance with respect to the environment, social, and governance, to let people further understand our organisation's development and expectations.

Message from the Board of Directors

The Group always adheres to product upgrade as a development strategy. It has always emphasized product development and food processing technology, by continuously introducing new products in order to satisfy the consumers' desire to experience new things and their demand for variety. In conformity with our paramount objective of creating naturally-produced, healthy, nutritious and safe food, we emphasize integrating the concept of sustainable development into the operation of our business. We believe that only by adhering to environmentally friendly practices can we bring to our customers fruit products that are healthy, delicious, and of the highest quality.

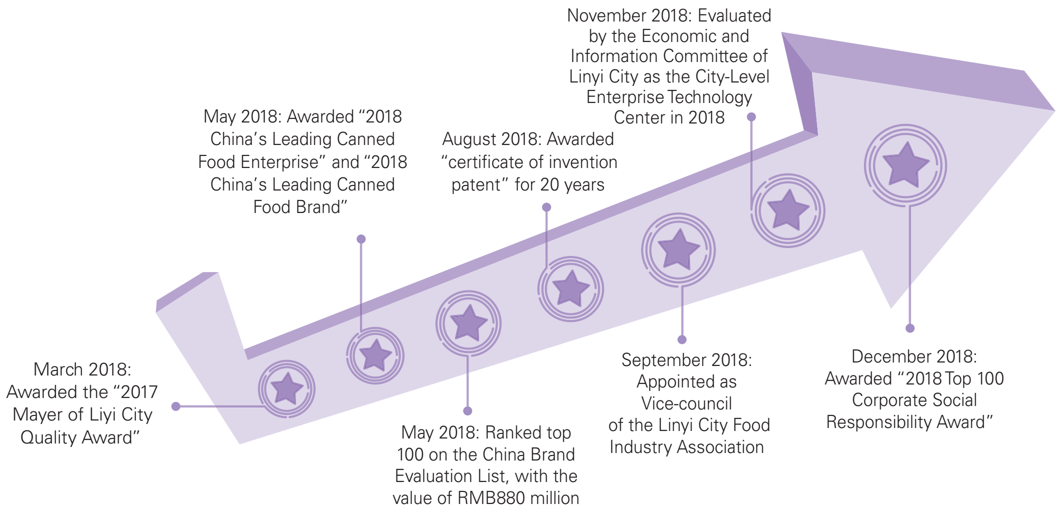
Faced with fierce market competition and customer needs, we believe that the only way to maintain the Group's competitiveness and expand its market share is to adopt operation and production models that keep with the times. Furthermore, we believe that only through integrating sustainable development with compliant operation, fostering a business environment that supports long-term development, avoiding permanent damage to the environment for short term gains, can we ensure that we will build a long-lasting company and brand that we can pass to future generations.

About the Group

The Group's mission is to become a well-established business that manufactures healthy and safe food products, in order to create blessing and happy lives for the public. The Group has consistently devoted into product development and food processing technology, to provide customers with innovative, healthy and high-quality products. During the Year under Review, the Group continued to treat "guaranteed quality" as its primary objective, committing to produce high quality and healthy fruit products.

With our commitment to product quality, the Group received many recognitions during the Year under Review. At the beginning of the year, the Group was awarded with the title of "Linyi Mayor's Quality Award". Our innovative and stringent production technology for pure fruit snacks was further granted a certificate of invention patent for a term of 20 years by the PRC National Intellectual Property Administration. In May 2018, the Group was rated "2018 China's Leading Canned Food Enterprise" and "2018 China's Leading Canned Food Brand" by the China Canned Food Industry Association (CCFIA). Our outstanding results allow the Group to once again be selected as China's top 100 most valued brands by category, with brand value reaching RMB880 million, demonstrating public confidence in the Group's brand, and rewarding the Group for its consistent commitment to quality.

Environmental, Social and Governance Report



For the sustainability of long-term development, our Group firmly believes that enterprises must not neglect their effects on the environment and the society when they are actively expanding their operations and increasing the quality of their products. With the staffs and the management working in concert, the Group had made outstanding contribution on food safety, ecology protection, technological advancement, innovative management, social responsibility fulfilment. In the fourth annual conference on corporate responsibility of China's food businesses, the Group received the grand award of "2018 Top 100 Most Socially Responsible Businesses".

"2017 Mayor of Linyi City Quality Award"

This award is the topmost award for high quality given by The People's Government of Linyi, awarded to institutions and individuals who had made outstanding contributions to the development of quality products for Linyi City. The Group has always adhered to stringent international food processing standards and has been awarded various valid certificates for its production facilities, quality control and management, passing numerous international inspections for food production standards.

2018 China Brand Evaluation List

The China Brand Evaluation Information List is the most authoritative brand value evaluation in China. Jointly carried out by the China Council for Brand Development and the provincial Quality and Technology Supervision Bureaus and Industry Associations, it calculates and assesses the value of brands according to international and national standards. The main scope of the assessment covers the status of brand development, financial indicators and composite indicators, in order to obtain the value and score that reflects the degree of "strength" of the brand. The Group had the honor of appearing on the 2018 China Brand Evaluation List and was selected Top 100 China's most valued Brand in its category, with the brand value reaching RMB880 million, indicating that both the market share and consumer recognition of the Group's products are steadily increasing.

"2018 China's Leading Canned Food Enterprise" and "2018 China's Leading Canned Food Brand"

The "2018 China's Leading Canned Food Enterprise" and "2018 China's Leading Canned Food Brand" awarded by China Canned Food Industry Association are based on the principle of voluntarily declared by the businesses.

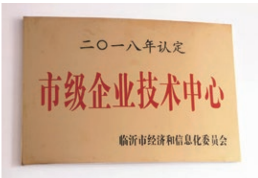
Through recommendations from local industry associations, or client application, enterprises are assessed. China Canned Food Industry Association is the only national-wide industry organization concerning China's canning industry. The recognition by this association demonstrates the high degree of approval that the industry has towards the Group's brand and product quality.

Environmental, Social and Governance Report

"Certificate of Invention Patent" issued by the National Intellectual Property Administration

The Company has newly developed a pure fruit snack. Leveraging on the strength of its superb product technology, it was granted a patent of 20 years issued by National Intellectual Property Administration, bringing the Group a revolutionary milestone, highlighting the constant advancement of the Group's research capacity.

"2018 City-level Enterprise Technology Center"



The "2018 City-level Enterprise Technology Center" is the highest approval given by the Economic and Information Technology Committee of Linyi City after rigorous assessment of areas such as the business' R&D personnel, technology investment, industry-academic cooperation, testing-equipment, and innovation results, followed by expert assessment and interview of the applicants.

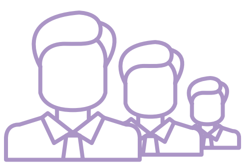
Stakeholder Communication and Materiality Matrix

During the year, we engaged in in-depth communication with the Group's stakeholders, and invited them to express their views on the Group, to allow us to understand and improve on our own performance, Here are the messages to Tianyun from some of our stakeholders:

Packaging materials supplier

We participate in supplier training organised by Tianyun at least once a year, learning about their supplier management system, assessment system, quality testing and terms of payment. We are pleased to maintain a close supplier-customer relationship with Tianyun, helping to secure Tianyun's supply, providing quality services, ensuring steady cooperation between both companies.

Domestic customer and long-term partner



We have worked with Tianyun Group for many years, and continuously learned from and raised quality through mutual cooperation. At the same time, with mutual understanding of the needs of end users and quality standards, orders have been completed with satisfactory quality and quantity. Our partnership is also increasing in terms of volume each year, along with contract value and product varieties. There will be more years of enjoyable partnership to come!

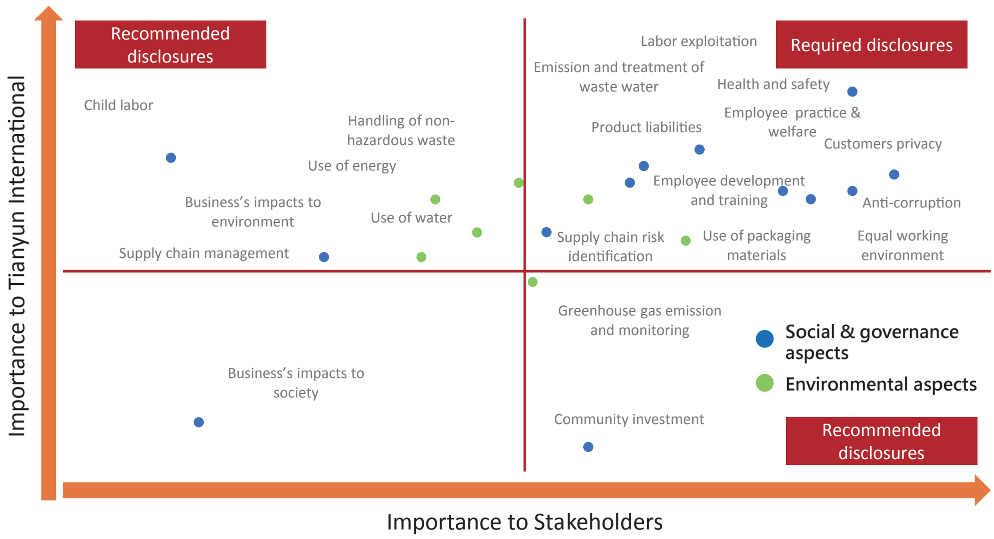
Employee (Associate Manager, Quality Control Department)

Since starting work at Tiantong, there has been a diversified range of regular training each year, including relevant regulatory systems, safety, first aid, career planning, etc. The training covers various aspects in life and in work, and has been particularly helpful in raising my professional ability, making a huge positive inspiration on my professional career. The training has also allowed me to climb up the corporate ladder, further boosting my passion and esteem for my work and strengthening my sense of belonging to the company, giving me a greater sense of pride and satisfaction in my work with the company.

Environmental, Social and Governance Report

Stakeholder feedback is critical to the direction of the Group's development. To understand stakeholder views, after identifying 20 key issues relevant to the Group's operation and business, we sent out anonymous questionnaires to collect views from stakeholders such as the Company's board members, employees, suppliers and customers. Based on their views and scores on various issues, we compiled the materiality matrix as follows, allowing us to determine matters material to the Group and make in-depth analysis and disclosures in the relevant areas, as we strive for better performance in the future.

2018 Tianyun International Materiality Matrix



	Critical Disclosure	Relevant Disclosure
Environmental Issues	Sewage treatment	Efficient management of waste
	Use of packaging materials	Efficient use of energy
		Efficient use of water resources
		Greenhouse gas emissions and monitoring
		Business impact on environment
Social and Governance Issues	Identification of supply chain risks	Child Labour
	Product liabilities	Community investment
	Employee development and training	Supply chain management
	Equal opportunity workplace	
	Work health and safety	
	Labour exploitation	
	Employment policy and staff benefits	
	Customer privacy protection	
	Anti-corruption policy	

This report will provide disclosures corresponding to the materiality of the above key issues in response to stakeholder demands. Meanwhile, this will serve as a sustainable guideline in the future as the Group strives for business sustainability.

Environmental, Social and Governance Report

Performance in 2018

Summary of Performance Highlights (Up to 31 December 2018)

Overall revenue:
RMB940.5 million
↑ 26.2%

NP

Net profit:
RMB147.5 million
↑ 19.3%

Annual dividend
HK4.4 cents/share
Payout ratio of 25.3%

Revenue from our own brands segment: RMB482.3 million; growth of 49.7% over the past year

- Revenue from our own brand products has become the largest segment, amounting to 51.3% of total revenue
- Made a consecutive appearance in the Most Valuable Chinese Brands List and the brand value reached RMB880 million

Distributors of our own brands: 210; Geographical coverage: 24 provinces, direct-controlled municipalities and autonomous regions in the PRC as well as the Hong Kong market

Overall greenhouse gas emissions[Note]:
11,511.7 tonnes of CO_2e

Total employees[Note]: 620

Aggregate training hours per employees[Note]:
113 hours ↑ 16%

The percentage of female managers[Note]:
46%

Products recalled in 2018[Note]:
0 cases

Note: The scope of this disclosure covers the production base of the Group located in Linyi City, Shandong Province, China.

Environmental, Social and Governance Report

Building a green society

During the Year under Review, the activities of the Group has no material impacts towards the environment.

The Group believes that high-quality, nutritious products are produced in a good environment. Therefore, we strive to conduct research on and implement various measures in relation to environmental protection, in order to set an example by reducing environmental damage and building a green, healthy society. During our production and packaging process, we put effort into reducing pollution and emissions, ensuring an efficient use of energy resources, and making good use of green facilities to further protect the environment. The Group expects to contribute to environmental protection in every possible way to ensure its long-term development, while providing high-quality products for the public.

Relevant disclosure	2018	2017	Changes
Greenhouse gases			
Total greenhouse gas emissions (tonne carbon dioxide equivalent (CO_2e))	11,511.70	10,327.70	+11.46%
Greenhouse gas emission intensity	12.24 tonne CO_2e/ RMB million of revenue	13.85 tonne CO_2e/ RMB million of revenue	-11.62%
Direct use of energy resources			
Natural gas usage	2.3601 million cubic metres	2.0839 million cubic metres	+13.25%
Car gasoline usage	24,700 litres	33,000 litres	-25.15%
Indirect use of energy resources			
Electricity usage	6,504,360 kWh	5,697,252 kWh	+14.17%
Others			
Total water consumption	1.27 million cubic metres	0.9758 million cubic metres	+30.14%
Water intensity	1,350.33 cubic metres/ RMB million of revenue	1,308.85 cubic metres/ RMB million of revenue	+3.17%
Total paper packaging material	760,692 kg	713,857 kg	+6.56%
Total amount of waste			
Total amount of hazardous waste	460 kg	469 kg	-1.92%
Hazardous waste intensity	0.49 kg/ RMB million of revenue	0.63 kg/RMB million of revenue	-22.22%
*Total amount of non-hazardous waste produced[Note1]	1.0945 million kg	0.3385 million kg	N/A
Non-hazardous waste intensity[Note2]	1,163.73 kg/RMB million of revenue	454.03 kg/RMB million of revenue	N/A
Total amount of recyclables	Waste paper: 0.3940 million kg Waste cans: 0.1669 million kg	Waste paper: 0.3582 million kg Waste cans: 0.1693 million kg	+6.33%

* During the Year under Review, non-hazardous waste produced mainly comprised waste cans and waste paper.

Environmental, Social and Governance Report

Note1. There is a significant difference between the total volume of non-hazardous waste produced in the previous year and during the year, mainly because the volume of waste paper produced was not included in the total volume in 2017. There was no accurate record of the volume of waste paper produced in 2017. This year the volume of waste paper produced has been included in the total volume of non-hazardous waste produced in order to present, a more comprehensive view.

Note2. As there is no accurate record of the volume of waste paper produced in the previous year and it was infeasible to calculate the same, it was not included in the total volume of non-hazardous waste produced, and the corresponding intensity is merely 454.03kg/RMB million of revenue. However, there is a significant difference between the intensity for this year and that of the previous year, on the basis that the volume of non-hazardous waste produced includes both the volume of waste paper and waste cans for this year.

In the previous year, the Group elected to use its design capacity as the computation unit during the calculation of intensity. However, since design capacity is a fixed number which may be changed according to the actual development magnitude of the Group, the emission or consumption intensity results could not give a true and fair view of our actual situation. Hence, the Group decided to use its annual revenue as the computation unit, in order to ensure that the calculated intensity reflects the actual situation of the Group's development. At the same time, we have re-calculated all numbers in relation to intensity from the previous year using annual revenue as the computation unit, so that they correspond to the data this year.

In general, the greenhouse gas emission and energy usage performance of the Group increased and the overall growth rate is lower than the Group's production growth in the Year under Review. With regard to the performance of greenhouse gas emission intensity, our greenhouse gas emission intensity decreased approximately 11.62% when compared to last year, reflecting the effectiveness of the Group's greenhouse gas emission control measures, since our emission performance could still be improved despite experiencing an overall increase of production and sales volumes.

In particular, the Group increased its use of paper packaging materials compared to last year, which is mainly due to the increase in product sales and such increase is reasonable. Car gasoline usage is lower than that of last year, which is mainly due to the higher environmental protection awareness among our staff, causing them to take public transportation instead of company shuttle buses, thus resulting in a reduction in car gasoline usage.

With regard to waste recycling, the Group continues to engage professional recyclers to handle our waste paper and cans, to ensure that recyclable waste is reused. We recorded a 6.33% increase in the overall amount of recycled items compared to that last year, and this proves the effectiveness of the Group's recycling policies. The Group is going to maintain our existing policies and ensure that no materials will be wasted.

Carbon reduction measures *Relevant disclosure*

During the Year under Review, the Group has performed secondary combustion technology with the use of boiler reform technology, by ensuring that the furnace is kept at a high temperature of 500°C or above. Under high temperature, carbon particles floating in the furnace are ignited to undergo full secondary combustion via flue gas. This prevents the presence of carbon monoxide, carbon particles, hydrocarbon chemicals and other hazardous substances. At the same time, by heating up water pipes and water tanks for the heating and heat treatment procedures, we can fully utilize recycled energy to avoid wastage of heat energy. In addition, we would also ensure full combustion of the smoke in our smoke combustion tank to guarantee clean gas emission, so as to reduce air pollution brought by smoke. These measures are conducive to enhancing air quality.

On the other hand, fruit ice-cream commonly found on the market must be refrigerated during delivery, otherwise the product quality would be seriously affected. However, refrigerants used in cold-chain equipment significantly increase the amount of greenhouse gas emissions during the logistic process and cause adversely impact the environment. As such, in order to reduce the burden caused by our delivery process towards the environment, the Group takes delivery requirements into consideration during our research and development of new products, aiming to reduce carbon emission of our products in general. "Fruit ice-cream", our Group's latest frozen fruit product, acts as a good example: Despite having the texture of ice-cream, this product can be delivered and stored under room temperature, and refrigeration is only required before serving. By reducing the use of refrigerants, fruit ice-cream has a significantly lower carbon footprint than most ice-cream products. As a breakthrough innovation, fruit ice-cream was awarded a 20-year patent by the State Intellectual Property Office.

Environmental, Social and Governance Report

Waste disposal *Relevant disclosure*

The Group is fully committed to environmental protection with regards to non-hazardous waste disposal.

During the year, the Group's production of waste can containers in our Shandong plant amounted to 333,800 kg, representing a decrease of 4,720 kg compared to last year. While reducing the production of waste, the Group is also actively recycling waste, where the amount of recycled waste can containers and waste paper were 166,900 kg and 394,009 kg respectively, and the amount of recyclables in general increased by 6.34% when compared to last year. This reflects the Group's endeavours in our recycling work, and that we strive to perform even better. We believe that recycling the simplest product in our daily production process makes a difference. We hope to improve our own performance, and at the same time, change the industry and contribute to environment protection.

Sewage treatment *Relevant disclosure*

In 2018, the Group continues to implement its policies on effective sewage treatment. We strictly abide by the principles of "recycle", "reuse" and "purification before disposal", to ensure that water, a precious resource, is not wasted and polluted.

With regard to improving the efficiency of our resource usage, the Group recycles a large amount of water during our sterilization and pre-cooking processes and launches water conservation campaigns to encourage our employees to save water.

With regard to sewage treatment, we ensure the overall effluent quality at our sewage treatment plants at all times, in accordance with the "Water Pollution Prevention and Control Law of the People's Republic of China" and local sewage treatment standards. The sewage treatment facility is designed by a professional team from Harbin Institute of Technology which is the leader in sewage treatment field in China. The facility can effectively reduce the levels of chemical oxygen demand (COD), ammonia nitrogen and other indicators, to ensure that sewage from our production lines do not negatively impact the environment when it is disposed. In addition, in order to avoid pollution caused by leakage of untreated sewage, sewage pipes in the plant are made of corrosion-resistant and heat-resistant materials. The plant also adopts an effective leak-proof drainage system and establishes a rainwater and sewage diversion system.

Effective energy conservation *Relevant disclosure*

Besides improving our energy performance through the use of boiler reform technology to perform secondary combustion technology, the Group continues to power staff bathhouses by a solar-heating system. Daily energy consumption is further increased to 220 cubic metres, representing a 5% increase compared to last year. It fully demonstrates the whole Group is united in its efforts in environmental protection. With the continuous rise of living standards in the society, and the increasing importance we attach to a low carbon life, the Group places even stronger emphasis on the building of green energy sources, in the hopes of further increasing the levels of green energy usage in the future. Thus we strike a balance between the needs of our business development and environmental protection, and contribute towards the creation of a green environment.

In addition, the Group is committed to improving our existing production machine parts and enhance our production efficiency, to control our energy consumption. For example, the Group has installed steam meters during the year, such that we can inspect the amount of our steam flow anytime during production, and control our usage of energy resources. The Group has also replaced certain forklift trucks that ran on fossil fuel with electric forklift trucks, to reduce direct energy combustion, and in turn improve the emission performance of greenhouse gases.

With regard to administration, the Group continued to implement the environment awareness scheme to encourage its staff to use less paper, and replaced all paper reports with electronic ones to reduce the use of paper. In addition, the Group has also replaced the lighting system in the office with LED lights to reduce the use of electricity.

Environmental, Social and Governance Report

Product Packaging *Relevant disclosure*

With regard to product packaging, the Group is subject to customer requirements, and mainly uses tinplate, plastic bottles, glass bottles and other materials at present. The Group understands the impact of product packaging towards the environment, hence we will strengthen communication and education with our customers, endeavouring to further increase the proportion of customers who choose to use packaging materials that are more environmentally friendly.

Quality Assurance with Vertical Industrial Chain

In 2018, the Group did not experience any product recall due to health or safety reasons.

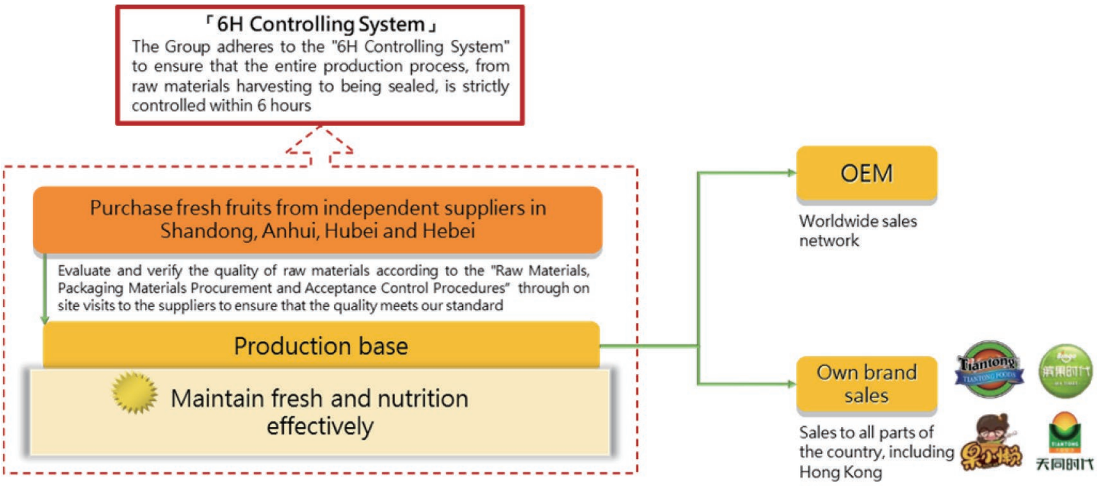
Food safety has always been a strategic issue of high national priority. As an enterprise with high social responsibility, the Group will continue to take the interests of the consumers at large as our primary consideration, maintaining food safety as the mission of development, selecting quality suppliers, and monitoring product quality.

During the Year under Review, the Group continued to maintain its parallel development strategy of its own brand business and OEM business, launching a series of new products to cement the position of our brand. As we upgrade product packaging to enhance brand image, the Group also emphasizes on improving product quality. By monitoring raw material quality at the source, monitoring production line conditions in real time, and establishing stringent shipping criteria, the Group exercises comprehensive management and control of the vertical industrial chain, striving to maintain its positive reputation on high quality, safe, healthy, tasty and nutritious products.

Product Features:

- Maximum preservation of food nutrition and taste
- Zero-added preservatives and additives such as sweeteners in all products
- Green and pollutant-free

Overview of the Group's Production Process



Environmental, Social and Governance Report

Choice of quality fruit sources and selection of good suppliers *Relevant disclosure*

Excellence in product quality lays the foundation of a company's development, and the quality of fruits is key to our product quality. With the contemporary trends promoting healthy and green living and with the aim of providing quality products to our customers at large, the Company insists on using only the finest fruits, in order to create healthy and green canned fruit products with zero additives.

For the purposes of quality assurance, the Group has formulated its internal Food Safety Procedures Paper, wherein the "Purchasing Control Procedures" clearly provide for the responsibilities to each department and every purchasing process, which ensures that the Company's partners are all reliable suppliers, securing the quality of the Company's food products. Its selection of fruits comes from the finest sources, purchased mainly from fruit farmers close to the Group's production facilities in Anhui, Shandong and Hebei provinces, to ensure that the fruits do not experience long travelling distances before entering into the production process, thereby maintaining freshness. Experts are also present throughout the cultivation, harvesting and transportation processes for monitoring purposes, so that green and pollutant-free raw materials are guaranteed.

In addition, the Group's purchasing department works closely with the production, quality control and finance departments, visiting suppliers in person to perform assessment through studying and sampling as well as providing them with the Group's list of requirements to ensure that they fully understand the relevant requirements before they become our supplier. The quality control and production departments will perform assessments on various materials in accordance with the Raw Materials and Packaging Materials Purchasing, Inspection and Receipt Control Procedures, including product perception testing, physical and chemical testing and microbes testing.

Besides the quality of raw materials, we also stress the importance of good service delivery and fulfilment of corporate responsibility by our suppliers. We have made deliberate effort to compile the "Code of Conduct for Suppliers" which prescribes what is our expectation on them. We conduct regular quality checks to assess the timeliness of our suppliers' delivery and their level of service coordination. In terms of corporate responsibility, the "Code of Conduct for Suppliers" stipulates the requirements for aspects such as production environment, selection of contractors, and human rights of employees in relation to our suppliers. In addition to maintaining a policy of zero tolerance on forced labour and child labour, the Code also requires all suppliers to ensure that no form of discrimination is practiced in the workplace, and that employees' rights are protected. Any deviation of the suppliers' performance from the requirements of the Code, or any non-compliant performance standards should be improved within six months. Otherwise, qualified suppliers are subject to disqualification, and the Group is entitled to terminate the cooperation between the two parties.

Tight control of Production Steps to Prevent Quality Risks *Critical disclosure*

Other than quality raw materials, stringent production procedures and effective risk management are needed in order to deliver products with the best quality to our customers.

In terms of production, the "6H control system" implemented by the Group ensures that the entire process from plucking to sealing of the raw materials is strictly controlled to under 6 hours, ensuring the freshness of the fruits while also maximising the preservation of the freshness, original taste and nutrients of the fruits. Between product output and delivery, the entire production process undergoes more than a dozen steps, and the Group has established clear standards at every stage to ensure that workers complete each step in accordance with the predetermined requirements, so as to maintain the quality of our canned fruits.

As one of the food enterprises with the most comprehensive quality certifications both domestically and overseas, the Group has adhered at all times to stringent international production standards and are accredited with BRC(A), IFS Food (High), FDA, SC, KOSHER and ISO22000 in respect of our production facilities, quality control and management. The Group further passed an on-site inspection conducted by U.S. FDA officials under the FSMA Food Safety Modernization Act in July 2018, becoming the first company in the Chinese canned fruits industry to pass a U.S. FDA inspection under the FSMA, certifying the Group's professionalism and capacity in executing its food safety preventive control and management system. Besides this, the Group has also passed the internal food production standard reviews and audits conducted by a number of U.K. and U.S. supermarket chains.

Environmental, Social and Governance Report

To ensure that workers understand production techniques and requirements, we have formulated detailed processing workflow charts for various products with reference to HACCP requirements, comprehensively covering standards for all stages of purchasing, production and packaging, as well as hygiene requirements. Further, we also implement a stringent quality control process, such as inspection and verification of production techniques and hygiene, performing physical and perceptual testing on semi-finished products post sterilisation and sealing, etc. to ensure hygiene and safety of our products.

With respect to product labelling, the Group's own brands have consistently complied with all laws and regulations of the PRC relating to food labelling and identification, including but not limited to the Food Safety Law, the Advertising Law, the Trademark Law, the Implementation Regulations of the Food Safety Law, the Food Labelling Administration Regulations, the Food Safety National Standards for Labelling on Pre-packaged Food General Rules (GB 7718-2011) and the Food Safety National Standards for Nutrition Labelling on Pre-packaged Food General Rules (GB 28050-2011), ensuring the accuracy of information accessible to consumers and safeguarding their interests.

Stringent Control of Shipping Quality to Safeguard Customer Interests *Critical disclosure*

To ensure that the quality of shipped products meet our stringent standards, we have established a food safety unit responsible for formulating and improving quality control policies, and to monitor general product quality based on our internal Food Safety and Quality Handbook. Meanwhile, the Group maintained its efforts in professional skills training for staff involved in quality control, production control and research and development, tightly regulating production techniques and procedures, ensuring safety and hygiene in the product production process, avoiding the production of substandard products. If a quality issue or potential risk is discovered, the task group will correspondingly issue a Corrective and Preventive Measures Checklist to follow up and verify the implementation and effectiveness of the relevant measures. If substandard products are discovered, the quality control department will correspondingly issue a Substandard Product Report, and make decisions on the quarantine, write-off and return of the relevant substandard products.

We entered into distribution agreements with all distributors, stipulating that they shall not sell expired products. We are entitled to repurchase any expired products at retail prices from the stores for proper disposal and reimburse the costs from the distributors. Upon discovery of any safety issues, the Group will promptly initiate a recall in accordance with the Product Recall and Control Procedures. Afterwards, the Group's food safety unit will convene a meeting to assess the recall, and the Company's trading department will also supervise the product recall process if necessary. In addition, the Group conducts regularly mock recall for refreshing the existing procedures and updating any relevant procedures to further improve the existing procedures. The Company strives to ensure that all procedures are performed under control. The Group endeavours to reduce the chances of product flaws so as to minimise potential risks to the Company.

Listening to Public Feedback

The Group believes that feedback from the consumers at large is vital to the long-term development of the Company. Thus, the Company consistently follows its established Customer Complaint Control Process, along with various internal guidelines such as the Product Quality Information and Feedback Checklist, the Health and Safety Feedback Files, and the Standard for Classifying Levels of Complaints By Natures in handling feedback and complaints: First, the veracity of the complaint is established based on the contents of the complaint, following which the complainant is informed of the relevant investigation results and solution within two days. The Group's food safety unit is responsible for investigating the relevant complaint and, if necessary, initiate a product recall to perform an analysis and dispose of the relevant product. At the same time, appropriate measures are taken to avoid repeated occurrence of similar issues and improve product quality. In order to inform the public of the overall situation and clarity any doubts, we will also take an initiative to notify the relevant authorities and the media to explain how Company handle the relevant matter.

During the Year under Review, we received a total of 2 complaints regarding products and services, mainly relating to poor barcode printing on product packaging and issues with regard to product texture. After a series of training, heightened supervision and stricter shipping inspection, the packaging barcode issue has been successfully resolved, while the product texture issue has also been handled after explaining and communicating with the customer.

Environmental, Social and Governance Report

Developing and Nurturing Talent

Our workers are the key to delivering our brand promises and we strive to ensure work safety and physical and mental well-being of our employees. To this end, the Group has prepared documents such as the Staff Handbook, the Social Responsibility Management Handbook and the Social Responsibility Procedure Paper on the basis of compliance with state laws and regulations to educate workers and safeguard their interests, while at the same time formulating guidelines for the Group's staff recruitment.

During the year, staff numbers and composition remained largely unchanged. As before, the Group has a higher proportion of female staff to male staff, while the number of ladies and men in management are approximately equal, demonstrating that the Group is committed to meritocracy and gender equality in the aspect of recruitment. Thanks to a clear and efficient human resource system, the Group proudly has 74 staff who have served the Group for over 10 years, as well as 123 staff who have been working with us for more than 5 years, illustrating very strong loyalty among our staff.

In terms of turnover, the Group's overall turnover was 13%, an increase of 4.2% over the past year, attributable mainly to turnover of frontline workers in the 41-59 years old and over 60 years old age groups of 19% and 16.6% respectively, which shows that a good number of frontline workers have reached retirement age, thereby raising the overall turnover. Aside from this, turnover among office staff and younger factory workers have remained low in the 2% to 5% range, demonstrating the effectiveness of the Group's talent retention policy.

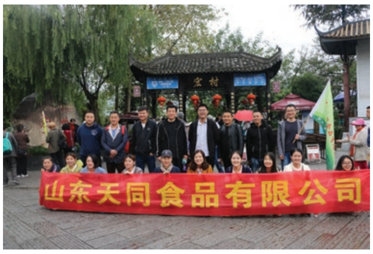
The Group operates in an frank and open environment while providing equal development opportunities to our workers. We will continue to monitor and improve our staff system and worker interests, maintaining the trust between the Company and our workers.

Helping workers tap into their potential to maximise their abilities *Critical disclosure*

During the Year under Review, the Group's aggregate training time per employee was 113 hours, a 16% increase compared to 2017, and number of attendances across all staff levels totaled 12,380 times. Tapping into the potential of each and every worker and optimising our human resources have always been the Group's mission. Thus, the Group continuously provides various forms of training for staff members across all levels. For employees with longer terms of service, the Group assists them in formulating career development plans and provides training on new skills; for new employees, the Group has established a comprehensive induction training system to help them adapt to the requirements of their positions and integrate into their work environment as soon as possible.

The major training contents include:

Course type	Course Content
Work health and safety	Training for fire safety and emergency plans, Electrical work and equipment protection training
Product safety, verification and relevant laws and regulations	Recall simulation training, ISO22000, BRC, IFS standards training
Orientation training	New employees should know and do, Staff Handbook introduction



We believe that worker unity is a central pillar supporting the Company as it reaches towards new horizons. Based on our "people-oriented" vision, we organised numerous leisure activities to encourage our management and workers to interact and communicate outside of work. In mid 2018, the Group provided its workers with a development training programme over several days, with the aim at encouraging workers to take initiative in assuming responsibilities and be fearless in taking on challenges, while simultaneously building team cohesion and heightening teamwork awareness.

Environmental, Social and Governance Report

We also organised internal basketball competitions, and sent representatives to participate in a friendly invitational basketball league organised by the Linyi City Hedong Economic Development Region, in the hope of enhancing our workers' physical fitness and building stronger teamwork cohesion, kindling their sense of belonging to the Group.

In future, the Group will continue to devote resources to provide comprehensive training for our workers. It is hoped that through conducting more cultural activities, our workers can enjoy a rich recreational life while discovering greater possibilities for personal career development.

Equal opportunity, compliant recruitment and protecting the workers' voice *Critical disclosure*

The Group's Staff Handbook clearly provides that every worker is under protection of the Company for open, fair and equal treatment, works for the Group under his or her own will, and will not be discriminated on the basis of religion, gender, age and ethnicity, while also enjoying personal freedom, freedom of speech, freedom of religion and freedom of association provided by the law. Obligations and interests relating to recruitment and resignation procedures, working hours arrangements, benefits-related policies (including labour protection measures, year end bonus methods, regular leave system etc.) covering every aspect of employment are included in the Handbook.

The Group hopes that our workers can enjoy their work. Thus, we determine the wages and position of our workers based on the minimum wage standards published by the Social Security Bureau and adjusted for local wage levels, and with reference to local industrial wage levels, individual working experience, ability, position and training. The Group's employees are entitled to overtime pay and statutory holidays by law, as well as annual leave, medical leave, casual leave, injury leave, maternity leave, paternity leave and compassionate leave in accordance with the Group's internal regulations based on position and term of employment.

Furthermore, the Group has formulated the Anti-Trafficking Procedures, the Non-Forced Labour Administration Procedure and the Procedures on Saving Child Labour and Youth Worker Protection on the basis of the Labour Law and the Labour Contract Law, to eradicate various forms of irregular labour and child labour *Relevant disclosure*. A dedicated unit implements and monitors from time to time the execution of the policies. In the event of any breach of regulations, we will first secure the safety of the worker under coercion, and immediately notify the human resources department to cease the employment, send the worker under coercion back to his home town and hold the employee responsible for the breach accountable. If necessary, the regulatory authorities will be informed. During the Year under Review, the Group did not discover any instances of child labour and forced labour.

In line with various policies, the Company has formulated the Social Responsibility Procedure Paper, wherein procedures such as the "Working Hours Management Procedure", the "Remuneration Management and Control Procedure", the "Health and Safety Management Procedure" and the "Anti-Discrimination Management Procedure" are clearly provided for, to allow employees to use as reference as and when needed. At the same time, the Group recognises the importance of having employee feedback channels. A labour union and a class action system has been established to provide employees with ample space to give their opinions, tightly complementing to the Group's "open, fair, equal" vision.

Environmental, Social and Governance Report

Ensuring health and safety of our workers *Critical disclosure*

During the Year under Review, the Group did not suffer from any incidents of work-related injuries or fatalities.

The Group complies strictly with the Production Safety Management Regulations, and continuously update the Company's Worker Handbook to educate workers on the importance of work safety, while implementing measures and rules to ensure the safety of our workers. During work hours, workers must wear protective equipment provided by the Group, including vests, gloves, ear muffs, sleevelets, finger stalls and helmets, before operating any equipment. To further ensure worker safety, besides arranging the relevant department to conduct regular physical check up for our workers, the Group stipulates that in the event that handling of hazardous materials is needed, such work must be given to a specialist staff member for supervision and handling, while specialist operators must undergo professional training and examination before being licensed to do such works. Moreover, we place warning signs and slogans in the key working areas to alert workers, and perform regular inspection on electrical equipment and circuitry while ensuring low voltage equipment is used for handheld electric tools, in order to avoid posing potential hazards to our workers due to mechanical failure.

If frontline workers are unaware that they are ill or suffering from diseases, product safety and quality might be affected. In order to ensure our workers stay healthy and raise their health and safety awareness, the Group organised mass health checking programmes for our workers during the year, putting our concern for the workers' physical health into actual practice. The health screening programme was very popular among the workers, with over 550 workers participating in the programme and was held in the Shandong Linyi City Hedong District Disease Prevention and Control Centre. The programme was jointly organised by the Company's labour union and human resources department, covering blood testing, chest x-ray and measles and rubella vaccination, etc. We believe that health checking is an important component of work health protection, enabling timely discovery of occupational diseases or other potential risks to our workers, so as to conduct targeted treatment and safeguard the health of our workers.

The Group will continue to strengthen work safety measures and provide comprehensive safety training and health screening to our workers, protecting the health and safety of our workers.

Honouring Corporate Commitments and Maintaining Good Corporate Governance

Protecting Customer Privacy *Critical disclosure*

During the Year under Review, the Group was not involved in any matter relating to customer privacy issues that impact the Group, and was not convicted for any breach of relevant laws and regulations.

With an aim to protect customer privacy, we commit ourselves to handle personal data carefully. In accordance with our internal guide, all employees must follow strictly the rules for retention and access of personal data. Employees cannot retain customer information in paper form without special permission. Under special circumstances, employees are required to obtain authorisation by department heads before printing such personal data. Such document must be with a "classified" stamp and usage term, and signed upon delivery to the recipient. Any classified documents are prohibited from being transferred to others. For security of electronic information of customer, according to our internal guide, only authorized employees can read the relevant information, and cannot be downloaded, edited or photocopied. To ensure employees implement the relevant requirements in real practice, HR Department will conduct random check from time to time. If any violation is found, such as loss of vendor or customer information etc., the relevant employee will be pursued for liability and dismissed, and we will claim relevant compensation for any financial loss against such employee, and report such employee to the public security department for handling when necessary.

Environmental, Social and Governance Report

Preventing Corruption *Critical disclosure*

During the Year under Review, the Group was not involved in any affairs relating to bribery, extortion, fraud and money laundering issues, and the Group was not found guilty or be significantly affected due to breach of the relevant laws and regulations.

The Group adopts zero tolerance attitude towards bribery and corruption. We strive to run our business with principles of trustworthiness and reliability. Thus, the Group strictly complies with its formulated Procedures for Prevention of Commercial Bribery and Corruption Control, so that each subsidiary of the Group can also clearly understand and comply with global anti-bribery laws.

The Group makes use of reporting channels such as anonymous comments collection boxes and reporting telephone numbers. At the same time, in order to avoid any bribery and corruption issues from happening, the HR Department of the Group also publicizes any laws and regulations relating to bribery and corruption through the Company's columns, e-mail, etc. to keep our employees educated. The management of the Group will also share relevant legal knowledge with employees regularly, provide relevant training, and strive to promote employees' awareness towards incorruptibility.

If any bribery or corruption is found, the Finance Department of the Group will investigate the activities and maintain communication with the public. For any verified corruption or bribery, the Group will immediately report to the local public security department. We believe that operational transparency can form a stable foundation for the long-term development of the Group.

Fighting against Infringement and Safeguarding Rights for the Group

During the Year under Review, no infringement of intellectual property rights was found by the Group.

As a leading branded processed fruit products seller and manufacturer in China, the Group has absolute zero tolerance on any infringement activities and made patent, commercial and website registrations for all of the Company's intellectual property rights. Once any infringement activity is found, the Group will investigate the matter through market research, internet research, communication with external parties etc. General infringements include infringements to the rights of the use of trademarks, websites, Company's inventions and patents, the packaging of products, etc. Once the Group realized such infringements, the Group will spare no efforts to protect our rights through different ways such as litigation.

Social Responsibilities – bearing the necessary ones *Relevant disclosure*

Whilst the Group strives to develop its businesses, we also believe that a corporate with vision of sustainable development must build up good corporate image and social recognition. Social recognition not only comes from qualities of products, but also originates from dedications and giving-backs to the society. That is why we always support developments for communities and proactively encourage our staff to participate in various community activities.

The Group hopes to support the needs of communities by our own influences and resources, for example, through making donations to various charity groups, providing cash and other material resources donations to the people in needs. In 2018, the Group was honoured with the title of "Star of Charity" by the Hedong District Government. By the end of 2018, the Group has also been awarded as "2018 Social Responsibility – Top 100 Corporations" by the committee members of the Annual Conference on Social Responsibility of Chinese Food Enterprises. The committee members of the Annual Conference on Social Responsibility of Chinese Food Enterprises selected those outstanding Top 100 Corporations with Social Responsibility of Chinese Food Enterprises of last year on the basis of fair, equitable and scientifically reasonable methods, which further recognized the Group's social positioning and its dedications to the society.

Environmental, Social and Governance Report

Nurturing for Future Stars

During the Year under Review, the Group intensified charity efforts and fulfilled the civil responsibilities as a corporation. The Group believes that helping youth and children develop individual potential helps to build a better future for the society. Therefore, we organised or participated in various activities for youths numerous times. For example, we devotedly supported the youth speech contest held in the mid-year in Linyi city, offered attractive prizes for the contestants, encouraged them to demonstrate their talents to the public. In addition, we also provided assistance to the students in families with difficulties. During the year, the Group joined hands with various government departments to conduct charitable events for primary schools, providing brand new school bags and stationery to local children in response to the national strategy for poverty assistance. During the Mid-Autumn Festival, the Group's labour union also visited the students in need with financial and material resources to help them successfully complete their studies. The Group has been supporting the students in need for a few years.

Caring for the Elderly and the Needy

The Group strives to participate in social events together with its employees, with the hope to accelerate the steps for wealth building and poverty reduction, enabling all the public to share and enjoy the results of social developments. During the year, the Company visited the elderly people in Zheng Wang Home for the Elderly in Hedong district, taking actions to bring blessings and warmth there. At the same time, it initiated caring activities to raise fund for the needy in Banyue town of Dangyang city. In order to raise the continuity of those poverty assistance programs, the Group plans to collaborate with the needy in the town, giving suggestions and financial assistances for their improvements of living, offering more secure job opportunities for the needy. We do not expect the so-called poverty assistance as just a single visit or a donation event, but as a mean of helping them to re-build the confidence and competency for a living.

For a Better Society

At the end of the Year under Review, the Company signed an agreement with Shandong Tianniu Foods Limited – a modern food enterprise which manufactures and sells canned fruits as well as selling beverages and pickles. We look forward to diversifying developments through the local resources advantages of Tianniu Foods, and increasing the job opportunities and sales of agricultural by-products for farmers in the nearby area. With the objectives of servicing the Hedong district, giving back to society, and demonstrating corporate social responsibility, the Group plans to make huge effort in guiding Tianniu Foods on staff education, corporate management and etc. and to make progress together. With both of our complementary advantages in production technologies, product developments, modified energy consumption and etc., we hope to further collaborate creatively, share the same new vision and make new steps to the future. As a corporation with social responsibility as well as charitable heart, the Company will continuously take part in philanthropies and initiate charitable events, call for more people to participate, help the needy to get rid of poverty, and build the confidence for better livings.

Future Prospects

Whilst the Group strives to develop its business, it always safeguards the ideas of protecting the environment and promoting social governance. Looking ahead, being one of the leading food enterprises with most certificates awarded by both local and international agencies, we hope to continually lead the industry on the road of sustainable development, and strive to be ahead of the industry instead of reacting in a passive position.

For the environment, the Group plans to do further research and development in the future on the possibilities of use of environmental-friendly packaging materials, so as to reduce the negative impact on the environment. In addition, we hope to enhance employees' concepts on environmental-friendly consumption, diminish the overall CO2 emissions to the most extent. Actions include continually promoting the ideas of energy and water conservation, and monitoring the status of energy and water consumption.

Environmental, Social and Governance Report

For social governance, besides continually protecting the rights for employees, we hope our employees can have more rooms for development for their potentials at work. Therefore, we will continually dedicate more resources on staff training for their better advancements. Meanwhile, the Group will launch more different activities for the communities, in order to bring more positive energies to the society and encourage unity in communities.

The Group regards sustainable development an important topic and mission for the Board of Directors, and a must-have item for corporate governance. Thus, the Group will continuously improve each operational procedure in order to build a corporate model which is beneficial to the environment, society and governance, and provide long-term results and values for the stakeholders.

Management Discussion and Analysis

BUSINESS REVIEW

The year 2018 witnessed manifold challenges to global economic activity and presented various uncertainties for China's domestic economy. Regardless, over the whole year, consumption remained one of the key drivers behind economic growth. The latest study by the globally renowned marketing research firm Nielsen found that the FMCG market of the PRC remained robust and vibrant in 2018, growing at an overall rate of 14%, showing a significant surge compared to 9% over the same period in 2017. At the same time, with the rising wave of consumption, the sustained rapid development of e-commerce attracted more consumers, as total market volume steadily increased. According to economic data published by the National Bureau of Statistics of PRC, between January to November 2018, online sales in Mainland China amounted to RMB8,068.9 billion, representing a year-on-year increase of 24.1%.

Food safety is a matter of basic livelihood. The 2018 China Food Safety Development Report found that major edible agricultural products and market supply of food products across the PRC continued to maintain a "largely stable" general trend, while food quality and safety levels continued to show a "gradually improving" general pattern. As China's leading fruit processing vendor and manufacturer, the Group is committed to producing natural, healthy, nutritious and safe food products. Striving to provide quality, safe, nutritious and delicious food products to consumers remains the Group's mission.

During the Year under Review, the Group's parallel development strategy of its own brand and OEM businesses continued to bring steady growth to the Group's results. Revenue, gross profit and net profit of the Group recorded double digit growth of 26.2%, 28.9% and 19.3% to RMB940.5 million, RMB263.3 million and RMB147.5 million, respectively.

As our business gradually develops into considerable scale, the Group has been successful in demonstrating its brand value through its strengths. In addition to being honored with the title of "2017 Linyi Mayor's Quality Award", the Group was also awarded the "2018 China Canned Food Leading Brand" and "2018 China Canned Food Leading Enterprise" by China Canned Food Industry Association. Meanwhile, with its outstanding brand value and influence, the Group made a consecutive appearance in the Most Valuable Chinese Brands List and the brand value of the Group reached RMB880 million. Further, the Group's newly researched and developed pure fruit snack was awarded the "Invention Patent Certificate" by the State Intellectual Property Office of PRC for its advanced and innovative proprietary technology. Our numerous honors attest to the market's enormous recognition and affirmation of the Company's brand value and product quality, and at the same time our business demonstrates a steady growth in both market share and consumer recognition of our own brand products, further consolidating the Group's leading market position in the enhanced consumer products industry.

Since 22 October 2018, Sichuan Development International Holding Company Limited (四川發展國際控股有限公司) ("SDIH") has become the single largest shareholder of the Company, holding 27% of the Company's issued share capital. SDIH is a wholly-owned subsidiary of Sichuan Development Holding Company Limited (四川發展(控股)有限責任公司) ("SDH"). SDH is a large-scale state-owned enterprise in the PRC with total assets of RMB906.092 billion as at the end of 2017, and its scope of business covers transportation, energy, finance, mining, infrastructure and real estate, modern service industry, strategic emerging industries and other fields. The Company and SDH will form a synergistic alliance in future cooperation, complementing each other's strengths in collaborative development. SDH has a strong capital position, good market reputation and a diversified business distribution, providing strong support for the Group, while the Group brings its professional management team and years of experience and extensive network with respect to resource acquisition, capital operation, and industrial chain consolidation in relation to agricultural food processing in both domestic and international levels. Both parties will work closely together while fully leveraging on their own strengths.

Management Discussion and Analysis

Own Brand Products Sales Strategy

During the Year under Review, the Group actively developed various business strategies. Our own brands, "天同時代 (Tiantong Times)", "繽果時代 (Bingo Times)" and "果小懶 (fruit zz)", were launched based on different channels and different consumer groups and were specifically positioned to attract target groups, and have been consistently well-received by consumers. During the Year under Review, the own brand business has grown steadily, amounting to 51.3% of total revenue, representing a year-on-year increase of 49.7%. For online sales, the Group continued to optimise e-commerce platform operations to enhance brand image, among which the fruit zz product series, primarily sold online, has become currently one of the most popular canned fruit brands among youths.

As individual and entertainment expression finds its way into different aspects of our daily lives, consumers increasingly pursue personality, such that besides the quality of the product itself, the level of sophistication that the brand imparts onto the product is increasingly important. The Group has responded actively, continuously raising product quality, enhancing product packaging, adding more fashionable and leisure elements, launching more fruit flavours of various specifications and packaging to satisfy consumer demands for varied tastes and preferences. At the same time, the Group has actively expanded distribution channels such as chain supermarkets, strengthening cooperation with local exclusive distributors, organising comprehensive marketing activities, conducting sampling, redemption, and lucky draw activities in locations with high pedestrian flow, such as malls, squares, parks and schools, enhancing brand awareness for our own brands. Currently, the geographical coverage of our own brand products further covers 24 provinces, direct municipalities and autonomous regions across China.

At the same time, the Group continued to actively expand its snack and beverage product line, launching various new products to strengthen its brand position. In the fourth quarter of 2018, the Group launched a pure fruit snack, which has been launched simultaneously online and offline in Mainland China and Hong Kong with rave reviews. This product is trans fat free and can be transported and stored at room temperature, and is a natural and healthy snack that provides the original taste of the fruits with good nutrition value.

With increasing health consciousness of the consumers in the PRC, the beverage industry has been trending towards natural and healthy development in recent years. Functional beverages are poised to grasp this huge market opportunity. One of the Group's future development strategies is to keep up with the ever-changing market and accelerate business development. After much hard work, the Group has obtained the production license in the PRC for our proprietary functional beverages, and has successfully conducted research and developed our proprietary formula for a series of sports energy functional beverage, which will be launched to the market under our own brand in 2019 subject to market conditions.

OEM Sales Strategy

The Group continued to conduct a parallel development strategy of its own brand and OEM businesses. During the Year under Review, the OEM business continued to develop steadily as we worked closely with renowned international food brands, and we increased strategic cooperation in different regions to reduce any negative impact from any single overseas market. The recent U.S. – China trade dispute only had minimal impact on our business as demand for processed fruit products "Made in China" remained massive in developed countries. The Group will continue to source more quality customers in developed regions such as Canada, Europe, Australia, New Zealand and Japan to increase our international market share. During the Year under Review, revenue from our OEM business increased to RMB362.3 million, representing 38.5% of the Group's total revenue.

Management Discussion and Analysis

Trading of Fresh Fruit

The Group believes that sales of fresh fruits from the PRC has always held a strong edge both domestically and overseas, and the Group has accumulated years of experience in this field. During the Year under Review, the Group continued to select and resell a small portion of fresh fruits to wholesalers of fresh fruit in the PRC. As our product line further diversifies to fruits of tropical and subtropical regions, the Group intends to increase the share of fresh fruit sales and gradually turn from mid and low end fresh fruits to also high end fresh fruits.

Expansion of Production Facilities

The Group continued to enhance and upgrade of its production facilities, in order to raise its production efficiency and capacity. The preparations for production workshops No. 5 and No. 6 have been actively in process and are planned for construction and operational commencement as soon as possible. Further, the Group acquired Strong Won Investment Limited and its wholly-owned subsidiary Tiantong Foods (Yichang) Ltd. (天同食品(宜昌)有限公司) (hereinafter "Hubei branch"), establishing a production and distribution base in central China to conduct business expansion, effectively increasing the Group's production capacity for new products and existing processed fruit products, as well as facilitating storage and transportation arrangements for the Company's own brand products in central China, and to develop products from the fruits grown in the subtropical region. During the Year under Review, production of Hubei branch commenced smoothly, and the Group's existing canned tangerines' production lines are fully operational with orders received from various countries. Currently, the total designed production capacity for processed fruit products in our Shandong and Hubei production bases is approximately 100,000 tonnes.

In the future, the Group also intends to further expand our production base to the subtropical and tropical regions, such as western part of the PRC and Southeast Asia with the goal of processing more fruit varieties from different regions as well as raising overall production capacity.

Research and Development and Promotion

Making delicious products while ensuring health and safety to safeguard consumer interests involves continuous research and development and innovation. As the first fruit processor in our industry to be allowed to affix the authorised "Zero Added Preservative" label on its own brand products sold in China, the Group remains committed to our mission for food safety as we actively invest in research and development of new products to satisfy the desires of the consumer at large for new tastes and their demands for diverse fruit products. During the Year under Review, the Group firmly implemented our operating goal of deseasonalization. Our newly developed trans fat free snack, which can be stored at room temperature, was awarded the "Invention Patent Certificate" by the State Intellectual Property Office of PRC for its advanced product technology, for a patent term of twenty years. This award is evidence of the high professional recognition of the Group's innovation and production technology capability, and provides a foundation for the bulk production and sales of this product. This new product also boasts fashionable packaging and would satisfy the consumption habits of the modern consumer. Response has been positive upon its trial launch in the PRC and Hong Kong markets. In future, the Group will conduct market segmentation, comprehensive upgrading and launch of products with more variety of flavours and specifications, boost promotional efforts to raise order volume, and will also formally christen the product to promote its uniqueness.

The Group also attended the 99th China Food and Drinks Fair held in Changsha, Hunan province in China, where our new product for the year, the "妖果季" canned fruits in apricot flavour was launched to the world. "妖果季" uses glass packaging and mainly targets the food and beverage channel, and may be enjoyed as a delicious fruit platter in buffet services. It has been tremendously popular with customers since its release. Mandarin and assorted flavours are set as an important extension of the Group's product line, to satisfy and meet the tastes and demands of different consumers.

Management Discussion and Analysis

Prospects

As consumption rises and industry size continues to grow, it is estimated that the market size for consumer goods in PRC will reach RMB609.2 billion by 2023. Nonetheless, according to the 2018 Food Industry New Retail Development Study, in terms of consumption volume, snack food consumption per capita is merely 25 g, far lower than the approximately 3000 g per capita in developed countries. This implies an enormous room for development for snack food products in the PRC. It is estimated that this market will maintain a growth rate of over 20% in the coming years.

According to the 2018-2023 China Canned Products Industry Production, Sales, Demand and Investment Forecast Analysis Report published by Forward Intelligence (前瞻產業研究院), canned food production in 2017 was 12,395,600 tonnes in the PRC, representing 24.79% of the global production capacity. The PRC has become the world's largest canned products producer while also maintaining its position as the top canned fruits exporter. As a successfully transformed leading consumer goods enterprise, the Group will leverage on an improving market environment and our established brand to secure its position as one of the leading enterprises of fruit products in both mainland China and the world.

For sales channels, the Group continues to maintain a parallel online and offline sales model. Mass consumer platforms TMall and WeChat Business will continue to be the Group's main online sales channels. To keep up with shopping habits of contemporary consumers, the Group actively explores emerging retail models to strengthen online coverage, keeping track of the market trends amidst rising consumption. Among such plans, we hope to enter into partnerships with trending online shopping platforms and online live entertainment platforms to raise brand awareness and boost brand promotional efforts. Additionally, the Group will strive to maintain friendly relations and active collaborations with existing distributors, securing various products promotional activities in the due course, conducting more targeted brand advertising strategies, in order to raise market share. The Group will expedite the establishment of online and offline sales networks in the PRC and Hong Kong with active participation in fairs and exhibitions over different regions, spreading the name of our own brand over the lands and across the seas.

In the area of mergers and acquisitions ("M&A") and strategic partnership strategies, during the Year under Review, the Group achieved a significant milestone in our business development. In January 2019, the Group and SDH signed a memorandum of understanding, whereby both parties will leverage on their own strengths to conduct close cooperation in the agriculture field, including develop a base for raw materials, investing in talents, technology, and expertise; investing in relevant agriculture industry projects, provide capital support necessary for acquisition of high-quality agriculture projects in China and abroad; at the same time both parties intend to invest an aggregate of RMB1 billion in agricultural food projects. The Group and SDH will complement each other's strengths in collaborative development, boosting new power for rapid development in the future, and laying vital groundwork for the Group to create a world-renowned brand and build an everlasting enterprise. The Group will continue to identify new M&A and investment opportunities.

To achieve sustainable business development, the Group will maintain its principal policy of deseasonalization in working towards all-climate, year-round production of products. As production capacity of the Shandong and Hubei production bases continue to increase, the Group will actively seek M&A opportunities in the future to achieve product and productivity synergies with partners, while with the mission of expanding and enriching product lines, the Group will seek to expand sales coverage and product variety of fresh fruits, particularly fruits of tropical and subtropical climates, providing more specific and comprehensive services to customers. For product packaging, the Group is actively researching more environmentally friendly and convenient alternatives to tinned cans, plastic bottles and glass jars for canned food packaging, such as Tetra Pak. New forms of packaging are instrumental to increasing product variety and specifications as well as raising order volume.

Management Discussion and Analysis

Having successfully transformed into a leading consumer goods enterprise, it is hoped that with the Group's strengthened capital position, increased investment in research and development and sales channels, and steadfast resolution to provide healthy, delicious, safe, and convenient fruit products for consumers, the Company will overcome all challenges and attain greater triumphs.

FINANCIAL REVIEW

Revenue

During the Year under Review, our revenue increased to approximately RMB940.5 million from approximately RMB745.5 million for the year ended 31 December 2017, representing an increase of approximately RMB195 million or 26.2%. The Group continued to sell its processed fruit products under its own brand and on an OEM basis, and engaged in trading of fresh fruits. The increase in revenue was mainly attributable to the substantial increase in the sales of our own brand products from approximately RMB322.1 million for the year ended 31 December 2017 to approximately RMB482.3 million for the Year under Review, representing a growth of 49.7%, and increase in the OEM sales from approximately RMB345.2 million for the year ended 31 December 2017 to approximately RMB362.3 million for the Year under Review, representing an increase of 5.0%.

Breakdown of the revenue by business segments for the Year under Review and the comparative figures in 2017 are set out as follows:

	For the year ended 31 December			
	2018	2017	Changes	
	RMB million	RMB million	RMB million	%
Revenue				
Own Brand Sales	**482.3**	322.1	160.2	49.7
OEM Sales	**362.3**	345.2	17.1	5.0
Fresh Fruits Sales and Others	**95.9**	78.2	17.7	22.6
Total	**940.5**	745.5	195.0	26.2

During the Year under Review, processed fruit products sold under our own brand accounted for 51.3% (2017: 43.2%) of the total revenue. Revenue from our own brand products has become the largest segment and represented over 50% of our total revenue for the first time in 2018. The substantial increase was contributed by (i) the continuous increase in the number of exclusive distributors, (ii) the growing and recurring sales from most of the existing distributors, and (iii) the expansion of the online sales channels. The number of our distributors increased from 184 as at the date of last annual report to 210 as at the date of this report. The revenue through online channels continued to increase by 9.4% to RMB71.8 million in 2018 and represented 14.9% of the revenue from our own brand products (2017: 20.4%).

Revenue from processed fruit products sold on an OEM basis increased by 5.0% to approximately RMB362.3 million (2017: RMB345.2 million), continued to contribute a significant portion of the total revenue of the Group and represented 38.5% (2017: 46.3%) of the total revenue during the Year under Review. Our processed fruit products are sold to international well-known brand owners either by our Group directly to overseas brand owners and trading entities, or through local trading entities based in the PRC.

We also sold fresh fruit products and the revenue contributed by fresh fruit sales and others represented 10.2% of the total revenue for the Year under Review (2017: 10.5%). Revenue from fresh fruit sales and others for the Year under Review increased by RMB7.3 million to approximately RMB87.6 million and the growth was mainly contributed by the new operation base in the Hubei Province.

Management Discussion and Analysis

Gross profit and gross profit margin

	For the year ended 31 December 2018 RMB million	2017 RMB million	Changes RMB million	%
Gross profit				
Own Brand Sales	**148.4**	92.1	56.3	61.1
OEM Sales	**104.1**	103.4	0.7	0.7
Fresh Fruits Sales and Others	**10.8**	8.8	2.0	22.7
Total gross profit	**263.3**	204.3	59.0	28.9

Gross profit for the Year under Review increased to approximately RMB263.3 million from approximately RMB204.3 million for the year ended 31 December 2017, representing a year-on-year increase of RMB59.0 million, or 28.9%. The increase was mainly driven by increase in revenue from both own brand and OEM sales, and improvement of the gross profit margin on our own brand business.

	For the year ended 31 December 2018	2017
Gross profit margin		
Own Brand Sales	**30.8%**	28.6%
OEM Sales	**28.7%**	30.0%
Fresh Fruits Sales and Others	**11.3%**	11.3%
Overall gross profit margin	**28.0%**	27.4%

Gross profit margin for the year increased from 27.4% to 28.0%. The price level of some of the key components of the cost of sales became more stable during the Year under Review. The overall increase in gross profit margin was mainly driven by the improvement of gross profit margin from the own brand sales, which was contributed by both increase in average selling price and reduction in average cost, and was partly offset by the drop of the gross margin from the OEM sales. The average selling price of OEM sales decreased during the Year under Review and was mainly due to the weakening of RMB against the USD. With regard to gross profit margin of fresh fruit sales and others, if certain others and miscellaneous adjustments are excluded, the gross profit margin of fresh fruit sales slightly increased to 24.2% in 2018 (2017: 23.6%).

Selling and distribution expenses

Selling and distribution expenses mainly include the transportation costs, promotion expenses, advertising expenses, and salary and related staff costs from sales and marketing department. For the Year under Review, the selling and distribution expenses amounted to approximately RMB14.3 million, representing a year-on-year decrease of approximately RMB2.7 million, or 16%. One-off brand building expenses in connection with offering free trial products which amounted to approximately RMB4.5 million were incurred in 2017. Without taking into account the one-off brand building expenses, the selling and distribution expenses increased by 14% from approximately RMB12.5 million to approximately RMB14.3 million and the increment was less than the growth of revenue during the Year under Review.

Management Discussion and Analysis

General and administrative expenses

General and administrative expenses mainly include salary expenses and related staff costs for management and administrative departments, professional fees, depreciation, foreign exchange differences, and various taxes with regard to the use of land and buildings. The amount increased from RMB28.5 million for the year ended 31 December 2017 to RMB34.9 million for the Year under Review. During the Year under Review, a higher exchange loss of RMB2.4 million was reported (2017: RMB2.4 million) which arose mainly from bank balances account, receivables, and the depreciation trend of HKD and USD against RMB during 2018. Moreover, depreciation expenses increased due to additions of land and buildings, and property, plant and equipment from Yichang Tiantong, during the Year under Review and completion of integrated development centre in December 2017. The increase in salary and professional fees was also driven by the growth of business operation in the Hubei operation and increase in the number of corporate transactions during the year. The general and administrative expenses during the Year under Review increased by 22% which was less than the growth of revenue in the same year.

Income tax expenses

Income tax expenses represent the PRC enterprise income tax of our PRC subsidiaries. For the Year under Review, our income tax expenses increased by RMB15.6 million, or approximately 41.8%, to RMB52.9 million from RMB37.3 million for the year ended 31 December 2017. The increase in the income tax expenses was primarily due to increase in our PRC assessable income during the Year under Review.

Net profit and net profit margin

For the Year under Review, net profit increased by approximately RMB23.9 million or 19.3% to approximately RMB147.5 million as compared to approximately RMB123.6 million for the year ended 31 December 2017. The overall increase of net profit during the Year under Review was driven by the growth of revenue from both the own brand and OEM business, the improvement of gross margin, and our effective control on the marketing expenses, which was partly offset by the increase in general and administrative expenses, finance expenses and tax expenses.

The net profit margin for the Year under Review was 15.7% (2017: 16.6%) and the decrease was mainly driven by the increase in finance expenses.

Liquidity, financial resources and capital resources

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

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

	As at 31 December 2018	As at 31 December 2017
Gearing ratio (%)	**32.1%**	21.6%
Current ratio	**2.39**	2.67
Cash and cash equivalent (RMB million)	**464.6**	309.2
Net current assets (RMB million)	**389.6**	308.4
Quick ratio	**2.05**	2.26

The gearing ratio of the Group as at 31 December 2018 was 32.1% (31 December 2017: 21.6%). Gearing ratio was calculated based on total debts divided by total equity. The amount of total debts was calculated by aggregating the bank and other borrowings, convertible bonds and amount due to a substantial shareholder.

Management Discussion and Analysis

The current ratio (calculated based on total current assets divided by total current liabilities) of the Group as at 31 December 2018 was 2.39 (31 December 2017: 2.67).

As at 31 December 2018, our cash and cash equivalents amounted to approximately RMB464.6 million (31 December 2017: RMB309.2 million). Our net current assets was approximately RMB389.6 million as at 31 December 2018, as compared to approximately RMB308.4 million as at 31 December 2017.

The quick ratio (calculated based on total current assets minus inventory divided by total current liabilities) of the Group as at 31 December 2018 was 2.05 (31 December 2017: 2.26). With stable cash inflows generated in the daily business operation, the Group has sufficient financial resources for future expansion.

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

The Group has not experienced any material difficulties or adverse effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the Year under Review.

Capital structure

The Group's total equity and liabilities amounted to approximately RMB766.1 million and RMB323.8 million, respectively as at 31 December 2018 (31 December 2017: RMB653.9 million and RMB184.2 million).

Bank borrowing and other borrowings, and finance costs

As at 31 December 2018, the total amount of an interest-bearing bank and other borrowings of the Group was RMB246.6 million (31 December 2017: RMB141.2 million). During the Year under Review, the Group increased bank and other borrowings of approximately RMB61.3 million, bank borrowings by Yichang Tiantong of approximately RMB28.4 million, and an amount due from a substantial shareholder of approximately RMB88.8 million. The Group also repaid loans advanced by a leasing company of approximately RMB13.7 million and the outstanding amount under the convertible bonds of approximately RMB59.7 million.

On 22 January 2018, the Group entered into a subscription agreement for the issue of convertible bonds in the principal sum of US$4,000,000 to Guotai Junan Finance (Hong Kong) Limited ("Guotai Junan") at an initial conversion price of HK$1.58 (the conversion price represents premiums of approximately 26.4% (i.e. HK$1.25) of closing price quoted on the Stock Exchange on the subscription date). The net price for the issue was HK$1.53. The issue of the convertible bonds was completed on 29 January 2018. Both the convertible bonds issued in November 2017 and January 2018 were fully redeemed in November 2018.

Finance costs of the Group increased from RMB4.4 million for the year ended 31 December 2017 to RMB13.4 million for the Year under Review, representing an increase of approximately RMB9.0 million and 204.5%. Such increase was mainly attributable to (i) interest expenses on convertible bonds of approximately RMB5.0 million, (ii) increase in interest expenses of approximately RMB1.8 million on bank borrowings, and (iii) decrease in capitalisation of borrowing costs of RMB1.9 million. The weighted effective interest rate of bank and other borrowings was 5.95% per annum as at 31 December 2018 (31 December 2017: 5.4% per annum).

Pledged assets

The Group pledged its land and buildings as collateral for the bank borrowings, and certain plant and equipment, office and computer equipment and furniture and fixtures for borrowings from a leasing company. As at 31 December 2018, the net book value of pledged land and buildings, and plant and equipment amounted to approximately RMB143.6 million (31 December 2017: RMB99.4 million).

Management Discussion and Analysis

Capital expenditure

Apart from the addition of non-current assets from the Acquisition Group, the Group has no material capital expenditure during the Year under Review.

The non-current portion of the prepayment included a refundable balance of RMB42.0 million at the PRC government that was brought forward from last year in preparation for participating in the auction for a parcel of land close to our existing production facilities in the Shandong Province, and an amount of approximately RMB13.7 million for building the sewage treatment system and facilities in the Hubei Province.

Interest rate risk

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

Foreign currency exposure

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

Human resources

As at 31 December 2018, the number of employees of the Group was 736 (31 December 2017: 624). The increase in headcounts was mainly attributable to the acquisitions of the Hubei production base and the expansion of the existing production capacity.

The total staff costs, including Directors' emoluments, amounted to approximately RMB49.4 million for the Year under Review (2017: approximately RMB30.0 million).

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

Commitments and contingent liabilities

As at 31 December 2018, the Group did not have other material capital commitments. In addition, the Group did not have any material outstanding contingent liabilities. The capital commitments contracted for but not yet incurred and provided for as of 31 December 2018, amounted to approximately RMB12.8 million (31 December 2017: RMB17.4 million).

Management Discussion and Analysis

Material acquisitions and disposals

On 15 September 2017, the Group entered into a sale and purchase agreement to acquire the entire issued share capital of Strong Won Investment Limited, the subsidiaries of which are principally engaged in the production and sales of processed fruit products at the consideration of HK$55 million, including HK$33 million cash consideration and consideration shares with the value of HK$22 million. Strong Won Investment Limited and its subsidiaries is based in the central part of the PRC and has its own production facilities. Through the acquisition, the Group can establish a production and distribution base in the central part of the PRC for further business expansion and development of subtropical processed fruit products. The acquisition was completed in January 2018.

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

On 11 February 2019, the Company and Sichuan Yizhan Enterprise Co., Limited ("Sichuan Yizhan"), a subsidiary of a substantial shareholder of the Company, SDIH, entered into a conditional joint investment agreement, pursuant to which the Company and Sichuan Yizhan agree to establish a joint venture company in Sichuan Province, the PRC, to fully utilize the respective strengths of each party, geographical advantages of Sichuan Province and policy advantage of the "Belt and Road Initiative" policy, to collaborate in developing a supply chain for processed agricultural and food products and a base for supply of raw materials that complies with international standards. According to the business plan, the Company shall invest RMB140 million and Sichuan Yizhan shall invest RMB60 million in the registered capital of the joint venture company. As at the date of this report, the establishment of the joint venture company is still subject to the fulfillment of certain conditions precedent.

During the Year under Review and save as disclosed above, the Group did not have any other material acquisitions or disposals of subsidiaries or associated companies.

Disposal of shares by controlling shareholder

On 27 September 2018, Wealth Active Limited ("Wealth Active"), a controlling shareholder (as defined in the Listing Rules) of the Company at the material time, entered into a share transfer agreement (the "Share Transfer Agreement") with SDIH, pursuant to which Wealth Active has agreed to dispose of, and SDIH has agreed to purchase 263,914,740 shares of the Company, representing 27% of the Company's issued share capital (the "Sale Shares") at a total consideration of HK$416,985,289.20 (equivalent to HK$1.58 per share) (the "Disposal").

The Share Transfer Agreement was completed on 22 October 2018. Following the completion of the Disposal, the shareholding of Wealth Active and Mr. Yang Ziyuan, who is the sole beneficial owner of Wealth Active and an executive director of the Company, reduced to approximately 19.20% of the Company's share capital in issue and ceased to be the controlling shareholders of the Company. For further details of the Disposal, please refer to the announcements of the Company dated 27 September 2018 and 22 October 2018.

Corporate Governance Report

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

Corporate Governance Practice

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

Directors' Securities Transactions

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

Board of Directors ("Board")

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

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

Director	Position	Term of office
Mr. Yang Ziyuan	Executive Director, Chairman and Chief Executive Officer	From 16 June 2018 to 15 June 2021
Mr. Sun Xingyu	Executive Director	From 16 June 2018 to 15 June 2021
Mr. Wang Hu	Executive Director	From 22 October 2018 to 21 October 2021
Ms. Chu Yinghong	Non-executive Director	From 16 June 2018 to 15 June 2021
Mr. Wong Yim Pan	Non-executive Director	From 16 June 2018 to 15 June 2021
Mr. Liu Zhumeng	Non-executive Director	From 22 October 2018 to 21 October 2021
Mr. Liang Zhongkang	Independent Non-executive Director	From 16 June 2018 to 15 June 2021
Mr. Tsang Yuen Wai	Independent Non-executive Director	From 16 June 2018 to 15 June 2021
Ms. Hui Yung Yung Janet	Independent Non-executive Director	From 16 June 2018 to 15 June 2021

Except that Ms. Chu Yinghong is the spouse of Mr. Yang Ziyuan, the Board members have no financial, business, family or other material relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board, and has met the recommended best practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors are set out on pages 54 to 57 under the section headed "Biographical Details of Directors and Senior Management".

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

Corporate Governance Report

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code as set out in Appendix 14 to the Listing Rules, the responsibilities between the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yang is our chief executive officer, and he is also the chairman of our Board as he has considerable expertise, experience and network in the fruit processing industry. The Board believes that vesting the roles of both the chairman of our Board and the chief executive officer of the Group in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group.

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

Independent Non-executive Directors

All the three independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of accounting, legal and fruit processing industry. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director has given a confirmation of his/her independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules. The independent non-executive Directors were appointed for a term of three years commencing from 16 June 2018 and are subject to retirement by rotation in accordance with the Articles of Association of the Company.

Board Meeting

During the financial Year under Review, the Board held 7 meetings and the individual attendance of each Director at those meetings are as follows:

Name of Director	Number of Board meetings attended
Mr. Yang Ziyuan	7/7
Mr. Sun Xingyu	7/7
Mr. Wang Hu (appointed since 22 October 2018)	3/3
Ms. Chu Yinghong	7/7
Mr. Wong Yim Pan	7/7
Mr. Liu Zhumeng (appointed since 22 October 2018)	3/3
Mr. Liang Zhongkang	7/7
Mr. Tsang Yuen Wai	6/7
Ms. Hui Yung Yung Janet	7/7

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

Corporate Governance Report

Directors' Continuous Training and Professional Development

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

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

Audit Committee

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

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

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

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

During the Year under Review, the Audit Committee held 2 meetings to review the annual results for the year ended 31 December 2017 and to review the interim results for the six months ended 30 June 2018 of the Company. Subsequent to 31 December 2018, the Audit Committee held a meeting on 27 March 2019 and reviewed the annual results for the Year under Review. The individual attendance of each relevant Director at those meetings are as follows:

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

Corporate Governance Report

Nomination Committee

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

The Nomination Committee may invite nominations of candidates from Board members for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members. In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the food processing industry and/or other professional area.

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

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

Name of Director	Number of meeting attended
Mr. Yang Ziyuan	2/2
Mr. Liang Zhongkang	2/2
Mr. Tsang Yuen Wai	2/2
Ms. Hui Yung Yung Janet	2/2
Mr. Wang Hu (appointed since 1 January 2019)	N/A

Remuneration Committee

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

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

Corporate Governance Report

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

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

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

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

Strategic Development Committee

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

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

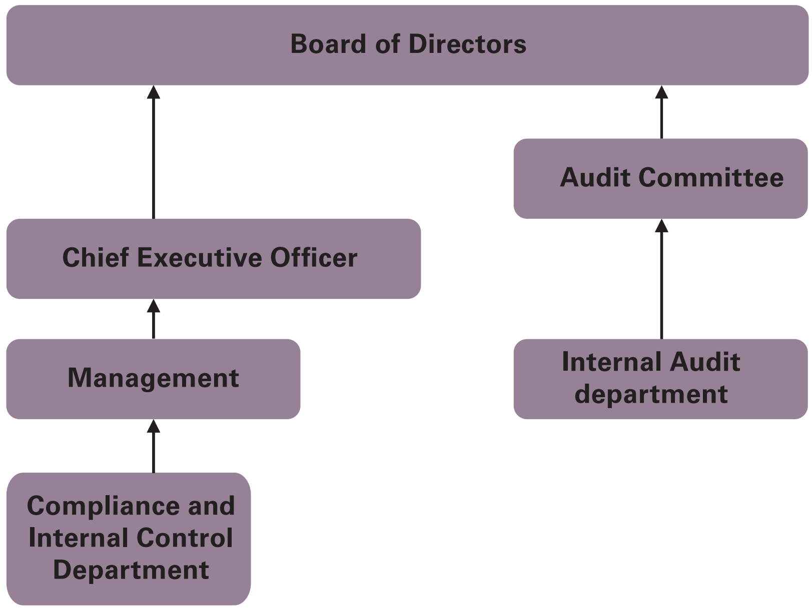
During the Year under Review, the Strategic Development Committee held two meetings to review of business decision and advise on future business development and strategies of the Company. The individual attendance of each relevant Director at the meeting are as follows:

Name of Director	Number of meetings attended
Mr. Yang Ziyuan	2/2
Mr. Sun Xingyu	2/2
Mr. Wang Hu (appointed since 1 January 2019)	N/A
Mr. Liang Zhongkang	2/2
Mr. Wong Yin Pan	2/2
Ms. Chu Yinghong	2/2
Mr. Liu Zhumeng (appointed since 1 January 2019)	N/A
Mr. Ho Ho Tung Armen (appointed since 1 January 2019)	N/A

Corporate Governance Report

Risk Management and Internal Control

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



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

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

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

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

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

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

Corporate Governance Report

Risk management procedures

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

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

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

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

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

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

Internal control

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

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

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

Corporate Governance Report

Inside information

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

Review of the effectiveness of risk management and internal control systems

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

In 2018, the Audit Committee, on behalf of the Board, conducted a review on the effects of the Group's risk management and internal control systems. As suggested by the Audit Committee, the Board was satisfied that the Group has complied with the provisions regarding risk management and internal controls as required under the CG Code. For the Year under Review, the Board is of the view that the risk management and internal control systems are effective and sufficient, and no issues matters which may affect the Shareholders were identified in relevant periods.

For details of the Group's shortcomings in operation or potential risks identified in the Year under Review and counter-measures therefor, please refer to the "Report of the Directors" in the annual report.

Auditors' Remuneration

During the Year under Review, the remuneration provided and paid to the Company's external auditors, PricewaterhouseCoopers, was approximately RMB2.4 million and RMB0.3 million for audit services and non-audit services respectively. The non-audit services rendered was the fees for the provision of taxation and advisory services for risk management and internal control.

Directors' Responsibility for the Consolidated Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The statement by the auditors of the Company about their reporting responsibilities on the financial statements for the Year under Review are set out on page 61 of this annual report.

Company Secretary

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

Corporate Governance Report

Shareholders' Rights to Convene a General Meeting

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

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

Procedures for Putting Forward Proposals by Shareholders at General Meeting

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

Putting Enquiries by Shareholders to the Board

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

Constitutional Documents

During the Year under Review, there was no amendment to the articles of association of the Company.

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

Communications with Shareholders and Investors

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

Voting by Poll

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

Report of the Directors

The directors of the Company (the "Directors") are pleased to present their annual report with the audited consolidated financial statements of the Company and its subsidiaries and the independent auditor's report for the Year under Review.

Corporate Information

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

Principal Activities

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

Business Review

Key financial and business performance indicators

A review of the Group's business and the analysis using the financial key performance indicators are set out on page 22 to 31 of this annual report under the paragraphs headed "Business Review" and "Financial Review" in the section headed "Management, Discussion and Analysis" of this annual report. In summary, the Group continued to implement the parallel development strategy on its own brand and OEM business in 2018 and continued to record a remarkable performance with revenue and gross profit increased by 26.3% and 28.9% respectively, including approximately 49.7% year-on-year revenue growth of our own brand products, which accounted for 51.3% of the Group's total revenues. Net profit for the year increased by 19.3% to RMB147.5 million.

Environmental, Social and Governance

The Group is committed to providing customers with natural, healthy, safe, delicious, and convenient processed fruit products, and at the same time upholds our long-standing development mission, which is to be "environmentally friendly, people-oriented, law-abiding, fair and trustworthy, and customer-focused". In 2018, the Group continued to improve resource efficiency and reduce emissions through a series of measures. In relation to corporate responsibility, through our Code of Production Operations Process, Safety Code and Staff Safety Code, the Group was dedicated towards safeguarding employees' rights and enhancing their safety awareness and corporate belonging. In relation to society contribution, the Group had shown their support and care for the society through various means, from investing resources into the society to organising various community activities.

Details of our environmental, social and governance measures are set out on page 5 to 21 of this annual report in the section headed "Environmental, Social and Governance Report" of this annual report.

Relationship with Customers and Suppliers

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

Compliance with laws and regulations

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

Report of the Directors

Workplace Quality

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

Principal risks and uncertainties

The Group is exposed to a variety of key financial risks including market risk, credit risk and liquidity risk. Details of the aforesaid key risks and risk mitigation measures are elaborated in Note 3 headed "Financial risk management" to the Consolidated Financial Statements of this annual report.

In 2018, the Group identified its critical risks through its risk management process. Following the continuous changes in the scale of business, scope of operation and external environment, the management believe that the three critical risks disclosed in the 2017 annual report still existed and one additional major risk also became prominent, namely International Business Environment Risk. In comparison to 2017, only International Business Environment Risk increased due to the China and US trade friction, while the other risks decreased. For the effects of each category of risks on the Group, the Group has given a detailed description, and prepared corresponding alleviating/avoidance measures to manage such risks. Details are as follows:

Risk in respect of Product Quality and Food Safety

Product quality and food safety are crucial to the food processing industry and the Group has always attached great importance thereto. The risk in respect of product quality and food safety refers to the defect in products or failure of meeting relevant standards, or the risk in respect of raw materials, production process and other product-related food safety issues. Any incidents in connection with product quality and food safety may adversely affect the confidence of the public towards the products of the Group, which in turn may affect the business and results of operation of the Group.

Risk Management Measures: The Group is committed to provision of healthy and safe products for customers in strict compliance with international standards and obtaining BRC(A), IFS food (High), HALAL, QS, KOSHER and ISO22000 certificates for production facilities, quality control and management. The Group is the first canned fruit company that passed the audit of FSMA (Food Safety Modernization Act) in the PRC. The Group will continue to strengthen regulation over procurement of raw and auxiliary materials. Due to the establishment of an effective supplier evaluation mechanism, all the suppliers are reviewed regularly to reassure that they have a required level of corporate credit and product quality, thus ensuring the product quality and safety from the original source. Continuous efforts are made to provide intensified professional training for the staff of quality control, production management and R&D departments, and conduct test and examination for the raw and auxiliary materials to be warehoused. The finished products to be warehoused are subject to test by batches with stringent processes, so as to ensure safe and sanitary product production process. In addition, test and examination are conducted for the products before delivery to prevent the delivery of disqualified products. The Group has established and continuously improved the product tracing mechanism, and has a product quality emergency response plan in place.

Report of the Directors

Merger and Acquisition Risk

In order to satisfy the increasing orders, the Group may expand its production capacity and enrich its product category through establishing or acquiring other food processing and manufacturing enterprises in the next few years. Acquisitions may be subject to risks including unforeseeable litigations, conflict between the culture of acquisition target and the Group's culture, poor financial position of acquisition target, and excessive diversion of the Group's resources and management's concern in acquisition. Failure to acquire suitable targets may result in the Group not able to create synergies with these targets, which may in turn affect our operation and loss of expected profits.

Risk Management Measures: The Group will engage professionals in acquisition to conduct due diligence and assess the acquisition targets to reduce potential risks of acquisitions including litigation risks and financial risks. The Group may retain the original qualified management of the target group to ensure management stability of the target group as far as possible. Trainings will also be offered to all staff of the target group to gradually form a uniform group culture. The Group will adopt an optimised way of fund payment, and improve the internal audit function and the Group's anti-jobbery mechanism on a continued basis to put an end to jobbery.

Brand and Reputation Risk

The Group will continue its strategy to develop the OEM and own brand business in parallel. If brand promotion is not sufficient, or when negative news appears and public relation professionals fail to deal with the same in a timely manner and disclose comprehensive and proper information to the public, the Group's reputation and brand image may be damaged. Failure in building up the positive image of our brand to the public may hinder our future growth and competitiveness, which may in turn affect the results of operation of the Group.

Risk Management Measures: The Group's existing registered brands include "果小懶","Bingo Time" and "Tiantong Times". Ever since the year of 2015, the Group has vigorously consolidated its own brand product business, and engaged professional public relation companies to handle the possible critical incidents prejudicial to the Group's image. Internally, the Group has also arranged personnel to collect adverse reports on the Group and submit the same to the management in a prompt manner, and the management will deal with the matter in accordance with the policies and processes of the Group. The Group enhances its brand reputation and influence through proactively attending the industry forum and other activities as organised by China Canned Food Industry Association. Moreover, the Group plans to engage professionals in brand building, and with the assistance of the market brand consultant, gradually increase investment in advertisement to promote brands and the Group's image by further leveraging on media resources. In 2018, the Group was awarded two significant prizes, "The Leading Brand of China Canned Food" and "The Leading Company of China Canned Food", and has been listed in the Top 100 China Best Brand Value (for a particular category).

International Business Environment Risk

The Group's products are sold in both the domestic PRC and overseas market. The uncertainty of the international political and policy trend may have a negative impact on our overseas sales, for example, the recent China and US trade friction leads to the increase of US tariffs on Chinese imports, which may lead to the increase of retail price of our products in the US market, thus causing erosion of the price competitiveness of our products in the US market. If the China and US trade friction sustains or upgrades, it may adversely affect the US business prospects of the Group.

Report of the Directors

Risk Management Measures: The Group has set up dedicated task force that work closely with management and external professionals to monitor and identify changes in overseas politics and trade regulations, particularly the China and US trade relations, so as to adjust the Group's overseas sales plan and payment receipts strategy on a timely manner, and take appropriate measures to ensure the Group is in compliance with applicable laws, regulations and quality standards.

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

Use of Proceeds from IPO

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

Net proceeds from IPO

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

Future business development

Please refer to the paragraph headed "Prospect" of the section headed "Management Discussion and Analysis" in this report for further details.

Results and Dividend

The results of the Group for the Year under Review are set out in the consolidated statement of comprehensive income on page 63. The Board has proposed a final dividend of HK$0.027 per share for the year ended 31 December 2018, to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at 2 July 2019 (the record date). Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company ("2019 AGM"), the final dividend will be satisfied in the form of an allotment of scrip shares of equivalent amount with an option to receive the same wholly in cash. Payment of the final scrip shares dividends are conditional upon the Stock Exchange granting the listing of and permission to deal in the new Shares to be issued as the final scrip shares dividends. The share certificates for the scrip shares final dividends and the dividends warrants are expected to be posted or paid to those entitled on or around Wednesday, 7 August 2019. The Company will send a circular to the Shareholders containing, among others, details of the final scrip dividends with a cash option.

Significant Investments

As at 31 December 2018, the Group did not hold any significant investments (2017: Nil).

Report of the Directors

Closure of Register of Members

For determining the entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from 11 June, 2019 to 14 June, 2019 (both days inclusive), during such period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2019 AGM, all transfer of shares of the Company accompanied by the relevant share certificate(s) and appropriate transfer form(s) must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 10 June, 2019.

For determining the entitlement to receive the proposed final dividend, the register of members of the Company will be closed from 26 June, 2019 to 2 July, 2019 (both days inclusive), during such period no transfer of shares of the Company will be registered. In order to be eligible to receive the proposed final dividend, all transfer of shares of the Company accompanied by the relevant share certificate(s) and appropriate transfer form(s) must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 25 June, 2019.

Major Customers and Suppliers

During the Year under Review, the aggregate sales to the Group's five largest customers accounted for approximately 23% of the Group's total revenue and sales to the Group's largest customer was approximately 6% of the Group's total revenue.

During the year, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 29% of the Group's total purchases, and the purchases attributable to the Group's largest supplier was approximately 8% of the Group's total purchases.

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

Property, Plant and Equipment

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

Share Capital

Details of the movements in share capital of the Group and Company during the Year under Review are set out in notes 21 and 33 to the consolidated financial statements respectively.

Reserves

As at 31 December 2018, the Company's reserves available for distribution amounted to approximately RMB559 million. Under the BVI Business Companies Act, the reserves of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be distributed, the Company shall be able to pay its debts as they fall due in the ordinary course of business. Details of the movements in reserves of the Group and of the Company during the year are set out in notes 22 and 33a to the consolidated financial statements respectively.

Pre-emptive Rights

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

Report of the Directors

Tax Relief

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

Financial Summary

A summary of the consolidated results of the Group for the past five financial years and of its consolidated assets and liabilities as at the end of the past five financial years is set out on page 126 of this annual report.

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

During the Year under Review, save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year. Details of the movements in the share capital of the Company during the year are set out in note 21 to the consolidated financial statements.

Equity-linked Agreements

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

Arrangements to Purchase Shares or Debentures

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

Share Option Scheme

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

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

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

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

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

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

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

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

Report of the Directors

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

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

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

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

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

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

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

Movements of the Company's share options during the Year under Review were as follows:

Grantee	Outstanding 01/01/2018	Exercised during the year ended 31/12/2018	Lapsed during the year ended 31/12/2018	Outstanding at 31/12/2018	Date of Grant	Exercised period	Exercise price (HK$)	Price of the Company's share immediately before the grant date
Key management	1,020,000	–	(510,000)	510,000	06/10/2015	Note 1	1.70	1.70
Other Employees	4,980,000	–	(2,490,000)	2,490,000	06/10/2015	Note 1	1.70	1.70
	6,000,000	–	(3,000,000)	3,000,000				
Key management	1,410,000	–	–	1,410,000	21/04/2016	Note 2	0.97	0.93
Other Employees	6,290,000	–	–	6,290,000	21/04/2016	Note 2	0.97	0.93
	7,700,000	–	–	7,700,000				
Total	13,700,000	–	(3,000,000)	10,700,000				

Note:

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

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

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

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

Report of the Directors

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

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

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

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

Share Award Scheme

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

Subsidiaries

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

Retirement Benefit Scheme

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

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

The total expense recognised in profit or loss statement of approximately RMB2.9 million (2017: RMB1.8 million) represents contributions paid and payable to the retirement benefit scheme during the Year under Review.

Donations

In 2018, we donated a total of approximately HK$14,223 for charitable purpose (2017: HK$208,897).

Directors

The Directors during the Year under Review and up to the date of this annual report were:

Executive Directors

Mr. Yang Ziyuan *(Chairman and Chief Executive Officer)*
Mr. Sun Xingyu
Mr. Wang Hu *(appointed on 22 October 2018)*

Report of the Directors

Non-executive Directors

Ms. Chu Yinghong
Mr. Wong Yim Pan
Mr. Liu Zhumeng *(appointed on 22 October 2018)*

Independent Non-executive Directors

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

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

Pursuant to Article 75(1) of the Articles of Association of the Company, Mr. Yang Ziyuan, Mr. Sun Xingyu and Mr. Tsang Yuen Wai will retire from office as Directors by rotation at the AGM and, being eligible, offer themselves for re-election.

Pursuant to Article 74(3) of the Articles of Association of the Company, Mr. Wang Hu and Mr. Liu Zhumeng will retire from office as Directors at the AGM and, being eligible, offer themselves for re-election.

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

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out on pages 53 to 56 to this annual report.

Directors' Service Contracts

Mr. Yang Ziyuan and Mr. Sun Xinyu has renewed his service contract with our Company pursuant to which he agreed to act as an executive Director for another term of 3 years with effect from 16 June 2018.

Mr. Wang Hu has entered into a service contract with our Company for a term of 3 years with effect from 22 October 2018.

Each of our non-executive Directors and independent non-executive Directors has signed a letter of appointment with our Company respectively. Save and except for Mr. Liu Zhumeng, the term of office of our non-executive Directors and independent non-executive Directors is 3 years with effect from 16 June 2018. The term of office for Mr. Liu Zhumeng is 3 years with effect from 22 October 2018.

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

Interests in Transactions, Arrangement or Contracts

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

Report of the Directors

Directors' Indemnity

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

The Company has taken out appropriate insurance cover in respect of legal action against the Directors during the Year under Review.

Related Party Transactions

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

Deed of Non-Competition

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

Directors' Interests in Competing Businesses

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

Management Contracts

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

Independent Non-executive Directors

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

Report of the Directors

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

As at 31 December 2018, the interests and short positions of our Directors and chief executive of our Company in the Shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions), or required, pursuant to section 352 of the SFO, to be entered in the register referred to therein are as follows:

Long Position in Ordinary Shares and Underlying Shares of the Company

Name of Directors	Capacity/Nature of interest	Number of shares held	Approximate percentage of total issued share capital
Mr. Yang Ziyuan	Interest of a controlled corporation	187,702,260 (note 1)	19.20%
Ms. Chu Yinghong	Interest of spouse	187,702,260 (note 2)	19.20%
Mr. Sun Xingyu	Interest of a controlled corporation	110,000,000 (note 3)	11.25%
Mr. Tsang Yuen Wai	Beneficial owner	192,000 (note 4)	0.02%

Notes:

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

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

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

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

Save as disclosed above, as at 31 December 2018, none of the Directors of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

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

As at 31 December 2018, so far as is known to the Directors or chief executive of the Company, the following persons or corporations other than Directors or chief executive of the Company, who had an interest or short position of 5% of more in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long Position in the Shares of the Company

Name of Shareholders	Capacity/Nature of interest	Number of shares held	Approximate percentage of total issued share capital
Sichuan Development International Holding Company Ltd. (note 1)	Beneficial owner	263,914,740	27.00%
Wealthy Active Limited (note 2)	Beneficial owner	187,702,260	19.20%
Wealthy Maker Limited (note 3)	Beneficial owner	110,000,000	11.25%
Sino Red Limited (note 4)	Beneficial owner	73,467,000	7.52%

Notes:

1. Sichuan Development International Holding Company Ltd. is wholly-owned by 四川發展（控股）有限責任公司 (Sichuan Development Holding Company Ltd.).
2. Wealthy Active Limited is a company incorporated in the BVI and is wholly-owned by Mr. Yang Ziyuan.
3. Wealthy Maker Limited is a company incorporated in the BVI and is wholly-owned by Mr. Sun Xingyu.
4. Sino Red Limited is a company incorporated in the BVI and is wholly-owned by Ocean Equity Partners Fund L.P.

Save as disclosed above, so far as is known to the Directors of the Company, no other person (other than the Directors and chief executive of the Company) had any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations which were or required to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or required to be recorded in the register required under section 336 of the SFO as at 31 December 2018.

Corporate Governance Practices

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report as set out on pages 32 to 40 of this annual report.

Sufficiency of Public Float

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

Review of the Final Results by Audit Committee

The Audit Committee has reviewed together with the management and the Company's independent auditor the accounting principles and practices adopted by the Group and has discussed auditing, internal control and financial reporting matters, including the review of the audited consolidated financial statements for the year ended 31 December 2018.

Report of the Directors

Auditor

The consolidated financial statements for the year ended 31 December 2018 were audited by PricewaterhouseCoopers. A resolution for the reappointment of PricewaterhouseCoopers as the Company's independent auditor and authorising the Board to fix its remuneration will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
Tianyun International Holdings Limited

Yang Ziyuan
Chairman

Hong Kong, 27 March 2019

Biographical Details of Directors and Senior Management

Executive Directors

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

Mr. Yang Ziyuan, aged 55, was appointed as our executive Director, Chairman of the Board and the Chief Executive Officer on 8 September 2011. He is responsible for the overall planning and strategic development of our Group's business. He joined 臨沂同泰食品機械製造有限公司 ("Linyi Tongtai Food Machine Manufacture Co., Ltd.") ("Tongtai") as a director and vice chairman in March 1995 and co-founded 山東天同食品有限公司 ("Shandong Tiantong Food Co., Ltd.") ("Shandong Tiantong") with Mr. Sun in 2003 as a president and chairman of the board. Mr. Yang is the spouse of Ms. Chu Yinghong, one of our non-executive Directors.

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

Mr. Sun Xingyu (孫興宇)

Mr. Sun Xingyu, aged 58, was appointed as our executive Director on 10 November 2014. He is responsible for financial management of our Group. He has been a director of Tongtai since December 1996 and co-founded Shandong Tiantong in 2003, being responsible for the financial management of our Group.

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

Mr. Wang Hu (王虎)

Mr. Wang Hu, aged 35, was appointed as our executive Director on 22 October, 2018. He is currently the chief financial officer of Sichuan Development International Holding Company Ltd* (四川發展國際控股有限公司) ("SDIH") and a director of Chengdu Westone Information Industry Inc. (成都衛士通資訊產業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002268).

Before he joined SDIH in 2014, he worked in the accounting department of China Taly Aviation Technologies Corp. (中國天利航空科技實業有限公司), and the finance department of Chengdu Industrial Investment Asset Management Company Limited* (成都工投資產經營有限公司). After joining SDIH, Mr. Wang has successively been the general manager of the finance department, the assistant to general manager and the chief financial officer. Mr. Wang obtained his bachelor's degree in finance management from Beijing Information Science & Technology University (formerly known as Beijing Institute of Machinery). He is also a PRC senior accountant (中國高級會計師) and PRC registered tax agent (中國註冊稅務師).

Biographical Details of Directors and Senior Management

Non-executive Directors

Ms. Chu Yinghong (褚迎紅)

Ms. Chu Yinghong, aged 58, was appointed as our non-executive Director on 10 November 2014. She is responsible for providing advice on strategic development of our Group. She joined our Group in January 2003 as a Director of Shandong Tiantong. Ms. Chu is the spouse of Mr. Yang, one of our executive Directors.

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

Mr. Wong Yim Pan (黃炎斌)

Mr. Wong Yim Pan, aged 51, was appointed as our Director on 10 November 2014 and re-designated as our non- executive Director on 16 June 2015. He is responsible for providing advice on strategic development of our Group. Mr. Wong graduated from The University of Hong Kong with a degree of bachelor of science in engineering in December 1989. He obtained a master degree in business administration from The Chinese University of Hong Kong in October 1992.

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

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

Mr. Liu Zhumeng (劉竹萌)

Mr. Liu Zhumeng, aged 29, was appointed as our non-executive Director on 22 October, 2018. He is currently an executive director at the investment banking department of SDIH. Before he joined SDIH in 2014, Mr. Liu worked in the audit and assurance department of BDO China Shu Lun Pan CPAs (LLP)(立信會計師事務所) ("BDO China"). Mr. Liu obtained his master's degree in accounting from Michigan State University.

Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Mr. Liang Zhongkang (梁仲康)

Mr. Liang Zhongkang, aged 74, was appointed as our independent non-executive Director on 16 June 2015. Mr. Liang completed a course in food engineering in Wuxi Institute of Light Industry (無錫輕工業學院) (now known as Jiangnan University (江南大學)) in August 1968. He was conferred as a senior engineer by China Light Industry Association (中國輕工總會) in December 1993. He is currently a China Canned Food Industrial Technical Expert.

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

Mr. Tsang Yuen Wai (曾苑威)

Mr. Tsang Yuen Wai, aged 43, was appointed as our independent non-executive Director on 16 June 2015. Mr. Tsang graduated from The Hong Kong Polytechnic University with a degree of bachelor of arts in accountancy in November 1998.

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

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

Ms. Hui Yung Yung Janet (許蓉蓉)

Ms. Hui Yung Yung Janet, aged 53, was appointed as our independent non-executive Director on 16 June 2015. Ms. Hui graduated from The University of Hong Kong with a bachelor degree in laws in November 1987, and completed a course of Postgraduate Diploma in Chinese Law, which was a distance learning course jointly organised by Tsinghua University and HKU School of Professional and Continuing Education, in December 2002.

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

Biographical Details of Directors and Senior Management

Senior Management

Ms. Lv Chunxia (呂春霞), aged 54, is our deputy general manager who joined our Group in January 2003, being responsible for overseeing our production, product quality inspection and product development.

Ms. Lv completed a course in Chinese Language and Literature in Shandong Radio and Television University (山東廣播電視大學) in July 1988. Between December 1980 and January 2003, Ms. Lv acted as a quality inspector, the director of quality inspection and the deputy director of quality of Linyi Cannery (臨沂罐頭廠). She has been accredited as the Expert of Canned Food Technology Committee of China National Food Industry Association (中國食品工業協會罐藏食品科技工作委員會專家委員) for four consecutive sessions since August 2002. She has also been appointed as a committee member of the third Expert Committee of Canned Food Technology Committee of China Canned Food Industry Association (中國罐頭工業協會科技工作委員會第三屆委員會專家委員) in May 2010. In November 2017, she was appointed as a member of the canning sub-Technical committee of the National Technical Committee of Food Industry Standardization (全國食品工業標準化技術委員會罐頭分技術委員會委員). And She was awarded the title of Outstanding Technical Expert of China Canning Industry (中國罐頭行業優秀技術專家稱號) in November 2018.

Mr. Ho Ho Tung Armen (何浩東), aged 42, was appointed as our Chief Financial Officer and Company Secretary in February 2015. Prior to joining the Company, Mr. Ho was the chief financial officer of the Tuenbo Group Limited. Prior to that, he held various senior positions in Wisdom Asset Management Limited, Hermes Capital Limited and Evolution Group Limited (now known as Investec Group) specialized in asset management, private equity, and corporate finance. Mr. Ho also worked for PricewaterhouseCoopers Hong Kong, KPMG UK and Grant Thornton Corporate Finance UK from 1998 to 2006 specialising in audit, advisory and corporate finance.

Mr. Ho received a MBA degree from the University of Chicago Booth School of Business, a Master of Science degree in financial economics from University of London and a Bachelor of Arts (Honours) degree in accountancy from City University of Hong Kong. He is currently a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ho has been an independent non-executive director of Stream Ideas Group Limited (stock code: 08401.HK) since March 2018.

Ms. Jiang Xiulan (姜秀蘭), aged 47, is our human resources manager and internal audit manager. She is responsible for overseeing matters relating to human resources and internal control of our Group. She joined our Group in January 2003 as a manager in the quality control department.

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

Mr. Jiang Yubao (蔣余寶), aged 45, joined Tongtai of our Group in August 1995. He was then transferred to Shandong Tiantong in January 2003, being the trading manager and responsible for overseeing sales and import and export matters of our Group.

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

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Tianyun International Holdings Limited
(incorporated in the British Virgin Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Tianyun International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 120, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Independent Auditor's Report

Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

- Valuation of investment properties
- Business combination of Strong Won Investment Limited and its subsidiaries ("Strong Won Group")

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment properties *Refer to Note 15 to the consolidated financial statements* As at 31 December 2018, the Group's investment properties portfolio, includes part of the integrated building centre amounted to RMB34,100,000. The fair value gain on the Group's investment properties amounted to RMB100,000 for the year ended 31 December 2018. Management engaged an independent valuer to estimate the fair value of the Group's investment properties as at 31 December 2018 based on the direct comparison method. The methodology and key assumptions used in the independent valuation of investment properties requires significant judgement and estimation. In addition, the balance of investment properties is significant. Therefore, we focused on this area in our audit.	Our audit procedures in relation to key assumptions used in the valuation of investment properties included: • Evaluating the independent valuer's competence, capabilities and objectivity by considering their qualifications relevant experiences and relationship with the Group; • Obtaining the valuation reports and holding meetings with the independent valuer, together with our own experts in property valuation, to discuss and evaluate the valuation methodology and key assumptions adopted, focusing on market comparables based on recent transacted prices of comparable properties, after adjustments for the differences in their locations and sizes; • Assessing the market comparables used by the independent valuer, on a sample basis, by benchmarking these against comparable market transactions for similar properties and locations. We found the methodology and key assumptions used in the valuation of investment properties were supported by the available evidence.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Business combination of Strong Won Group *Refer to Note 32 to the consolidated financial statements* On 31 January 2018, the Group completed a discloseable transaction to acquire the entire interest of Strong Won Group. The goodwill recognised from the acquisition transaction amounted to approximately RMB1,104,000. The accounting of the business combination of Strong Won Group involved various significant judgements. These judgements included the identification of intangible assets from the acquisition, recognition of identifiable net assets at fair value at the acquisition date and management's assessment of contingent consideration. The final purchase price allocation of this transaction was supported by a valuation performed by an independent professional valuer. The valuation involved unobservable inputs such as useful lives of property, plant and equipment and other assumptions. We focused on this area as the accounting of it required significant judgements and estimates by management.	Our audit procedures in relation to assess management's accounting of the business combination included: • Understanding and assessing the rationale of management and the independent professional valuer on the identification of goodwill and methodologies used based on our knowledge of the business; • Assessing the competency, capability and objectivity of the independent professional valuer by considering their qualifications, relevant experiences and relationship with the Group; • Involving our internal valuation specialist to identify material intangible assets owned by the Strong Won Group; assess the valuation methodology and the assumptions adopted in the valuation calculations of the property, plant and equipment and leasehold land and land use right as at valuation date; • Evaluating management's assessment of contingent consideration in particular the probability of estimated post-acquisition production volume and sales of Strong Won Group by examining relevant terms set out in the acquisition agreement and assessing the estimation of the fair value of the contingent consideration on the completion date. Based on the procedures described, we considered the judgements and estimates applied in the accounting of the acquisition of Strong Won Group were supported by the available evidence.

Independent Auditor's Report

Other Information

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

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

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

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

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	6	**940,507**	745,541
Cost of sales	7	**(677,240)**	(541,283)
Gross profit		**263,267**	204,258
Other income	6	**849**	780
Other (losses)/gains, net	6	**(2,619)**	4,635
Selling and distribution expenses	7	**(14,290)**	(17,014)
General and administrative expenses	7	**(34,859)**	(28,479)
Operating profit		**212,348**	164,180
Finance income		**1,437**	744
Finance costs		**(13,405)**	(4,385)
Finance costs – net	9	**(11,968)**	(3,641)
Profit before income tax		**200,380**	160,539
Income tax expense	10	**(52,853)**	(37,258)
Profit for the year attributable to equity holders of the Company		**147,527**	123,281
Other comprehensive income			
Item that may be reclassified to profit or loss:			
Revaluation gain arising from transfer of property, plant and equipment to investment properties		**–**	303
Other comprehensive income for the year, net of tax		**–**	303
Total comprehensive income for the year attributable to equity holders of the Company		**147,527**	123,584
Earnings per share for profit attributable to equity holders of the Company for the year (expressed in RMB cents)			
– Basic earnings per share	11	**15.07**	12.61
– Diluted earnings per share	11	**15.04**	12.54

The notes on pages 68 to 120 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	*13*	**66,521**	56,976
Property, plant and equipment	*14*	**262,167**	199,694
Prepayments	*19*	**55,660**	54,855
Investment properties	*15*	**34,100**	34,000
Goodwill	*32*	**1,104**	–
		419,552	345,525
Current assets			
Inventories	*17*	**90,250**	75,727
Trade and other receivables	*19*	**115,430**	107,741
Cash and cash equivalents	*20*	**464,590**	309,167
		670,270	492,635
Total assets		**1,089,822**	838,160
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	*21*	**207,383**	232,459
Reserves	*22*	**558,684**	421,453
Total equity		**766,067**	653,912
LIABILITIES			
Non-current liabilities			
Bank borrowing	*26*	**27,535**	–
Contingent consideration payable	*32*	**15,550**	–
Total non-current liabilities		**43,085**	–
Current liabilities			
Trade payables	*24*	**26,951**	25,178
Accruals and other payables	*25*	**19,163**	15,947
Amount due to a substantial shareholder	*31(b)*	**88,826**	–
Bank and other borrowings	*26*	**130,234**	81,677
Convertible bonds	*27*	**–**	59,535
Current income tax liabilities		**15,496**	1,911
Total current liabilities		**280,670**	184,248
Total equity and liabilities		**1,089,822**	838,160

The notes on pages 68 to 120 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 63 to 120 were approved by the Board of Directors on 27 March 2019 and were signed on its behalf.

Mr. Yang Ziyuan
Director

Mr. Sun Xingyu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to equity holders of the Company							
	Share capital RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Revaluation reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2017	236,114	43,213	(3,100)	–	22,500	2,318	265,115	566,160
Comprehensive income								
Profit for the year	–	–	–	–	–	–	123,281	123,281
Other comprehensive income								
Revaluation gain arising from transfer of property, plant and equipment to investment properties	–	–	–	303	–	–	–	303
Total comprehensive income for the year	–	–	–	303	–	–	123,281	123,584
Transaction with owners								
Buy-back of shares *(Note 21)*	(3,655)	2,194	–	–	–	–	–	(1,461)
Dividends relating to 2016 paid *(Note 12)*	–	(21,685)	–	–	–	–	–	(21,685)
Dividends relating to 2017 paid *(Note 12)*	–	(13,291)	–	–	–	–	–	(13,291)
Employees share option scheme: – share-based compensation expenses *(Note 23)*	–	–	–	–	–	605	–	605
Total transactions with owners	(3,655)	(32,782)	–	–	–	605	–	(35,832)
Balance at 31 December 2017	232,459	10,431	(3,100)	303	22,500	2,923	388,396	653,912

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to equity holders of the Company							
	Share capital RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Revaluation reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2018	232,459	10,431	(3,100)	303	22,500	2,923	388,396	653,912
Comprehensive income								
Profit for the year	–	–	–	–	–	–	147,527	147,527
Total comprehensive income for the year	–	–	–	–	–	–	147,527	147,527
Transaction with owners								
Dividends relating to 2017 paid *(Note 12)*	(10,326)	(10,431)	–	–	–	–	–	(20,757)
Dividends relating to 2018 paid *(Note 12)*	(14,750)	–	–	–	–	–	–	(14,750)
Transfer of reserves *(Note 22)*	–	–	–	–	32,962	–	(32,962)	–
Employees share option scheme *(Note 23)*:								
– release of reserve upon share options lapsed	–	–	–	–	–	(676)	676	–
– share-based compensation expenses	–	–	–	–	–	135	–	135
Total transactions with owners	(25,076)	(10,431)	–	–	32,962	(541)	(32,286)	(35,372)
Balance at 31 December 2018	207,383	–	(3,100)	303	55,462	2,382	503,637	766,067

The notes on pages 68 to 120 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

		Year ended 31 December	
		2018	**2017**
	Note	**RMB'000**	**RMB'000**
Cash flows from operating activities			
Cash generated from operations	*28(a)*	**219,365**	151,292
Interest paid		**(12,639)**	(2,852)
Income tax paid		**(39,268)**	(36,156)
Net cash generated from operating activities		**167,458**	112,284
Cash flows from investing activities			
Purchases of property, plant and equipment		**(10,662)**	(21,186)
Prepayment for property, plant and equipment		**(13,660)**	–
Prepayments paid for business acquisition		**–**	(12,855)
Cash paid for business acquisition	*32*	**(14,597)**	–
Cash acquired from business combination	*32*	**198**	–
Interest received		**1,437**	744
Net cash used in investing activities		**(37,284)**	(33,297)
Cash flows from financing activities			
Repayment to a related company		**–**	(5)
Cash received from a substantial shareholder	*31(b)*	**88,826**	–
Repayments of loans from a leasing company		**(13,677)**	(15,516)
Proceeds from bank and other borrowings		**129,334**	68,000
Repayments of bank and other borrowings		**(78,453)**	(68,000)
Proceeds from issuance of convertible bonds		**26,032**	59,670
Repayments of convertibles bonds		**(90,540)**	–
Transaction costs paid for issuance of convertible bonds	*9*	**(565)**	(1,533)
Transaction costs paid for bank borrowings	*9*	**(201)**	–
Dividends paid to shareholders	*12*	**(35,507)**	(34,976)
Buy-back of shares	*21*	**–**	(1,461)
Net cash generated from financing activities		**25,249**	6,179
Net increase in cash and cash equivalents		**155,423**	85,166
Cash and cash equivalents at beginning of year		**309,167**	224,001
Cash and cash equivalents at end of year	*20*	**464,590**	309,167

The notes on pages 68 to 120 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1 General information of the Group and Group organisation

1.1 General information

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

The Company is an investment holding company incorporated in the British Virgin Islands on 8 September 2011 with limited liability. The address of its registered office is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands, VG1110.

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Hong Kong Companies Ordinance Cap. 622, and have been prepared under the historical cost convention as modified by the valuation of investment properties (Note 15), convertible bonds (Note 27) and contingent consideration payables (Note 32), which are stated at fair value.

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

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9, "Financial instruments"
- HKFRS 15, "Revenue from contracts with customers"
- Amendments to HKFRS 2, "Classification and measurement of share-based payment transactions"
- Amendments to HKAS 28, "Annual Improvements to HKFRSs 2014-2016 cycle"
- Amendments to HKAS 40, "Transfers to investment property"
- HK(IFRIC) — Int 22, "Foreign currency transactions and advance consideration"

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(a) New and amended standards adopted by the Group (continued)

The Group has changed its accounting policies for adoption of HKFRS 9, Financial Instruments and HKFRS 15, Revenue from Contracts with Customers. For details, please refer to Note 2.2. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New and amended standards that have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted

- HKFRS 16, "Leases"[1]
- HKFRS 17, "Insurance contracts"[2]
- HK (IFRIC) 23, "Uncertainty over income tax treatments"[1]
- Amendments to HKFRS 9, "Prepayment features with negative compensation"[1]
- Amendments to HKAS 28, "Long-term interests in associates and joint venture"[1]
- Amendments to HKAS 19, "Plan amendment, curtailment or settlement"[1]
- Amendments to HKFRS 10 and HKAS 28, "Sale or contribution of assets between an investor and its associate or joint venture"[3]

[1] effective for annual period beginning on or after 1 January 2019
[2] effective for annual period beginning on or after 1 January 2021
[3] to be determined

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly charge.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(b) *New and amended standards that have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted (continued)*

HKFRS 16 Leases *(continued)*

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group's future aggregate minimum lease payments under non-cancellable operating leases is approximately RMB352,000. HKFRS 16 provides new provisions for the accounting treatment of leases and all non-current leases, including future operating lease commitments, must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. Operating expenses under otherwise identical circumstances will decrease, and depreciation, amortisation and interest expense will increase. It is expected that certain portion of these lease commitments will be required to be recognised in the statement of financial position as right of use assets and lease liabilities.

The Group expects to recognise right-of-use assets and lease liabilities for the non-cancellable operating lease commitments which are more than one year. The accounting for lessors will not significantly change and hence the Group does not expect any significant impact on the consolidated financial statements. However, some additional disclosures will be required for next year.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2019.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Change in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

HKFRS 9 Financial Instruments

Nature of change

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

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.2 Change in accounting policies *(continued)*

HKFRS 9 Financial Instruments *(continued)*

Impact

(i) Classification and measurement of financial instruments

The Group assessed the Group's business model of managing the financial assets and consider no financial assets that requires reclassification and adjustment upon the adoption of HKFRS 9. There is no impact on the Group's accounting for financial liabilities. The Group accounts for the convertible bonds as financial liabilities that are designated at fair value through profit or loss. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed. The Group's financial liabilities previously carried at amortised costs remained to be measured at amortised costs under HKFRS 9.

(ii) Derivatives and hedging activities

The Group does not hold any derivatives as at the reporting dates. No adjustments are therefore required.

(iii) Impairment of financial assets

Trade and other receivable is the financial asset that subject to HKFRS 9's new expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the customers' past settlement pattern, existing market conditions as well as forward looking estimates at the end of each reporting period.

For trade receivable, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivable and throughout its life at an amount equal to lifetime expected credit losses.

The Group considers the credit risk characteristics and the days past due to measure the expected credit losses. For the year ended 31 December 2017 and 2018, given there is no history of significant default from customers and insignificant impact from forward-looking estimates, the identified loss allowance and the impact of the change in impairment methodology on the Group's opening retained earnings and equity was immaterial.

Prior to the adoption of HKFRS 9, the impairment of trade receivables was assessed on the incurred loss model which were known to be uncollectible were written off by reducing the carrying amount directly. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Other receivables at amortised cost are considered to be low risk, and therefore the impairment provision is determined as 12 months expected credit losses. The resulted increase of loss allowance for other receivables on 1 January 2018 was immaterial. The loss allowance for other receivable have not further increased during the current reporting period.

The management considers the adoption of HKFRS 9 does not have significant impact to the Group's as at 1 January 2018 and therefore no adjustments are required.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.2 Change in accounting policies *(continued)*

HKFRS 15 "Revenue from contracts with customers"

Nature of change

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

HKFRS 15 identifies 3 situations in which control of the promised goods or services are regarded as being transferred over time:

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

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

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

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

Impact

After considering (1) the level of customers' control over the processed fruit products and fresh fruit during the manufacturing period and (2) the existence of alternative use of these products, the recognition basis of the income from sales of goods remains unchanged at the point in time when the goods have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The adoption of HKFRS 15 does not have significant impact to the Group. As the result, there was no impact on the Group's consolidated statement of financial position on 1 January 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.3 Subsidiaries

2.3.1 Consolidation

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

Business combinations

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

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

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.3 Subsidiaries *(continued)*

2.3.2 Separate financial statements

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

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.5 Foreign currency translation *(continued)*

(c) Group companies (continued)

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

2.6 Property, plant and equipment

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.7 Investment properties

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.8 Leasehold land and land use rights

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

2.9 Goodwill

Goodwill is measured as described in Note 2.3.1 Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating companies.

2.10 Impairment of non-financial assets

Goodwill has an indefinite useful life is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

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

2.11 Investments and other financial assets

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.11 Investments and other financial assets *(continued)*

(i) Classification (continued)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories to classify the debt instruments:

(1) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated income statement. Impairment losses are presented as separate line item in the consolidated income statement.

(2) Fair value through other comprehensive income

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in the consolidated income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment expenses are presented as separate line item in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.11 Investments and other financial assets *(continued)*

(iii) Measurement (continued)

(3) Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in the consolidated income statement in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in the consolidated income statement as other gains, net when the Group's right to receive payments is established.

Changes in the fair value of FVPL are recognised in other gains, net in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and other receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(v) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, the Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Reclassification

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made.

(ii) Subsequent measurement

The measurement at initial recognition did not change on adoption of HKFRS 9, see description above. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.11 Investments and other financial assets *(continued)*

(v) Accounting policies applied until 31 December 2017 (continued)

(iii) Impairment

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

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income.

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

2.12 Offsetting financial instruments

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

2.13 Inventories

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

2.14 Trade and other receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 19 for further information about the group's accounting for trade receivables and Note 2.2 for a description of the group's impairment policies.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.15 Cash and cash equivalents

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

2.16 Share capital

Ordinary shares are classified as equity.

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

2.17 Trade and other payables

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

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

2.18 Borrowings

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

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

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

2.19 Borrowing costs

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

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

2.20 Compound financial instruments

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.21 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.21 Current and deferred income tax *(continued)*

(c) Offsetting

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

2.22 Employee benefits

(a) Employee leave entitlements

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

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

(b) Pension obligations

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

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

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

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

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

(c) Bonus plans

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.23 Share-based payments

Equity-settled share-based payment transactions

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.24 Provisions

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

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

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

2.25 Revenue recognition

(a) Sales of goods – whole sale

The Group manufactures and sells a range of processed fruit products and fresh fruit in the market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from whole sale is recognised based on the price specified in the contract, net of the volume discounts which are determined by the accrual sales made up to each financial year end. No element of financing is deemed present as the sales are made with a credit term of 30-120 days, which is consistent with market practice. The Group has not significant obligation replace fruit products under the standard warranty terms.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Sale of goods – retail

The Group operates a retail store selling fruit juice. Revenue from the sale of goods is recognised when a Group entity sells a product to the customer. Payment of the transaction price is due immediately when the customer purchases the fruit juice and takes delivery in store.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Summary of significant accounting policies *(continued)*

2.25 Revenue recognition *(continued)*

(c) Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 9 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(d) Rental income

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

2.26 Government grants

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

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

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

2.27 Leases

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

2.28 Dividend distribution

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

3 Financial risk management

3.1 Financial risk factors

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk

(i) Foreign exchange risk

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

As at 31 December 2018, if RMB had strengthened/weakened by 5% against USD with all other variables held constant, the post-tax profit for the year would have been approximately RMB1,263,000 lower/higher (2017: RMB1,493,000 higher/lower), mainly as a result of foreign exchange gains/losses on translation of USD denominated trade receivables, cash and cash equivalents and convertible bond.

As at 31 December 2018, if RMB had strengthened/weakened by 5% against HK$ with all other variables held constant, the post-tax profit for the year would have been approximately RMB6,743,000 higher/lower (2017: RMB136,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of HK$ denominated cash and cash equivalents.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank balances at floating interest rates and bank and other borrowings. Bank borrowing obtained at variable rate exposes the Group to cash flow interest rate risk which is partially offset by bank balances held at variable rates. The Group's other borrowings and convertible bond at fixed rates expose the Group to fair value interest rate risk. During 2018 and 2017, the Group's bank and other borrowings were denominated in RMB, and its convertible bond is denominated in USD.

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

As at 31 December 2018, if interest rate on bank borrowings had been 50 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB116,000 (2017: RMB177,000) lower/higher, mainly as a result of higher/lower of interest expenses on variable rate bank borrowing.

(b) Credit risk

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

As at 31 December 2018 and 2017, cash and cash equivalents are all deposited with listed banks. The Group has not incurred significant loss from non-performance by these parties in the past and management does not expect so in the future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

As at 31 December 2018, top 3 customers of the Group accounted for approximately 23% (2017: 28%) to the trade receivables of the Group. The Group has set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these customers. Management makes periodic assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the forward-looking estimates impart is insignificant. The directors are of the opinion that no provision for loss allowance made to the financial statements is considered necessary.

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

(c) Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
At 31 December 2018			
Trade payables	**26,951**	**–**	**26,951**
Other payables	**6,837**	**–**	**6,837**
Bank and other borrowings	**135,531**	**29,523**	**165,054**
Amount due to a substantial shareholder	**93,385**	**–**	**93,385**
	262,704	**29,523**	**292,227**
At 31 December 2017			
Trade payables	25,178	–	25,178
Other payables	7,478	–	7,478
Convertible bond	63,063	–	63,063
Bank and other borrowings	84,201	–	84,201
	179,920	–	179,920

3.2 Capital management

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

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For the year ended 31 December 2018

3 Financial risk management *(continued)*

3.2 Capital management *(continued)*

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debts divided by total equity. Total debts are calculated by aggregating the bank and other borrowings, convertible bonds and the non-trade nature of amount due to a substantial shareholder as at 31 December 2018 and 2017.

The gearing ratios were as follows:

	2018 RMB'000	2017 RMB'000
Total debts	**246,595**	141,212
Total equity	**767,639**	653,912
Gearing ratio	**32.1%**	21.6%

The increase in the gearing ratio during 2018 was resulted primarily from the fund raised from bank and other borrowings and amount due to a substantial shareholder.

3.3 Fair value estimation

(a) *Financial assets and liabilities*

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

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

	Level 2	
Liability	**2018 RMB'000**	**2017 RMB'000**
Convertible bonds	–	59,535

	Level 3	
Liability	**2018 RMB'000**	**2017 RMB'000**
Contingent consideration payable	**15,550**	–

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

Notes to the Consolidated Financial Statements
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3 Financial risk management *(continued)*

3.3 Fair value estimation *(continued)*

(a) Financial assets and liabilities (continued)

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

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

The detail on fair value measurement of the contingent consideration payable was set out in Note 32.

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

(b) Non-financial assets and liabilities

Judgements and estimates have been made in determining the fair values of the investment properties that are recognised and measured at fair value in the financial statements. All of the fair value measurements of the Group's investment properties were categorised into level 3 of the fair value hierarchy.

Valuation process and technique used to determine level 3 fair values

The Group's investment properties were valued by an independent professional valuer, Roma Appraisals Limited who hold recognised relevant professional qualifications and have recent experience in the locations and segments of the investment properties valued, on an open market value basis at the end of every financial reporting period. For all investment properties, their current use equates to the highest and best use.

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

3.4 Offsetting financial assets and financial liabilities

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

Notes to the Consolidated Financial Statements

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4 Critical accounting estimates and judgements

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

(a) Valuation of investment property

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

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

At 31 December 2018, if the market value of investment properties had been 10% higher/lower with all other variables held constant, the carrying value of the Group's investment properties would have been RMB3 million higher/lower and the Group's profit before tax would have been increased/decreased by RMB3 million.

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

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

(c) Net realisable value of inventories

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

(d) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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For the year ended 31 December 2018

4 Critical accounting estimates and judgements *(continued)*

(d) Income taxes *(continued)*

The fair value of contingent consideration payable was determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions, including post-acquisition performance of the acquired businesses and fair value of the Company's shares, which are mainly based on market conditions existing at the end of each reporting period. Changes in assumption used could materially affect the fair value of these balances and as a result affect the Group's financial condition and results of operation.

(e) Fair value of identifiable assets and liabilities acquired through business combinations

The Group applies the acquisition method to account for business combinations, which requires the Group to record assets acquired and liabilities assumed at their fair values on the date of acquisition. Significant judgment and estimate are used to determine the completion date and fair value of the assets acquired and liabilities assumed. The valuation involves estimating future cash flows from the acquired business, determining appropriate discount rates, asset lives and other assumptions.

(f) Fair value of contingent consideration payable

The fair value of contingent consideration payable was determined by using valuation techniques as the date of acquisition and the end of each financial reporting period. The Group uses its judgement to select a variety of methods and make assumptions, including post-acquisition performance of the acquired businesses and fair value of the Company's shares, which are mainly based on market conditions existing at the end of each reporting period. Changes in assumption used could materially affect the fair value of these balances and as a result affect the Group's financial condition and results of operation.

5 Segment information

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

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

The Company is domiciled in the British Virgin Islands while the Group operates its business in the People Republic of China (the "PRC"). For the year ended 31 December 2018, the Group's revenue of RMB864,058,000 (2017: RMB670,055,000) was generated from domestic and overseas customer based in the PRC and paid in RMB, and the Group's revenue of RMB76,449,000 (2017: RMB75,486,000) was generated from direct overseas customers paid in foreign currencies. All non-current assets were located in the PRC.

Segment assets and liabilities

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

Information about major customers

No Single customer contributed over 10% of the Group's total Revenue for the year ended 31 December 2018 and 2017.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

6 Revenue, other income and other gains

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

	Year ended 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Revenue		
Domestic sales	**864,058**	670,055
Direct overseas sales	**76,449**	75,486
Total sale of goods	**940,507**	745,541
Other income		
Government subsidies	**307**	405
Rental income	**439**	267
Sundry income	**103**	108
Total other income	**849**	780
Other (losses)/gains, net		
Re-measurement on convertible bonds	**(4,973)**	135
Fair value gain on investment properties	**100**	4,500
Fair value change of the contingent consideration payable	**2,254**	–
Total other (losses)/gains, net	**(2,619)**	4,635

7 Expenses by nature

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

	Year ended 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Auditors' remuneration		
– Audit services	**2,402**	1,839
– Non-audit service	**264**	279
Cost of inventories sold	**621,567**	503,164
Depreciation of property, plant and equipment *(Note 14)*	**18,161**	13,256
Amortisation of leasehold land and land use rights *(Note 13)*	**1,688**	1,449
Employee benefit expenses (including directors' emoluments) *(Note 8)*	**49,435**	30,004
Legal and professional fees	**1,540**	1,130
Loss on disposals of property, plant and equipment	**37**	2
Operating lease payments	**441**	371
Land taxes, surcharges and other taxes	**8,839**	9,243
Transportation expenses	**7,341**	6,097
Foreign exchange losses	**2,421**	2,363
Others	**12,253**	17,579
Total cost of sales, selling and distribution expenses and general and administrative expenses	**726,389**	586,776

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8 Employee benefit expenses (including directors' emoluments)

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages and salaries	**44,665**	26,322
Discretionary bonuses	**1,715**	1,290
Social security costs for the PRC employees	**2,864**	1,732
Defined contribution for Hong Kong employees – MPF	**56**	55
Share-based compensation expenses *(Note 23)*	**135**	605
	49,435	30,004

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 include two directors (2017: two) whose emoluments are reflected in the analysis shown in Note 34. The emoluments paid/payable to the remaining three (2017: three) individuals are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Basic salaries, allowances and benefits in kind	**1,326**	1,142
Discretionary bonuses	**23**	21
Social security costs	**28**	6
Defined contribution – MPF	**35**	36
Share-based compensation expenses	**10**	69
	1,422	1,274

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

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

	Number of individuals	
	2018	2017
Emolument bands (in HK$)		
Nil to HK$1,000,000	**2**	2
HK$1,000,001 – HK$1,500,000	**1**	1

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9 Finance costs – net

	Year ended 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Finance income		
– Interest income on short-term bank deposits	**1,437**	744
Finance costs		
– Interest expenses on the loans from a leasing company	**(863)**	(1,710)
– Interest expenses on bank borrowings	**(6,820)**	(3,075)
– Interest expenses on convertible bonds	**(4,956)**	–
– Transaction costs for issuance of convertible bonds	**(565)**	(1,533)
– Transaction costs for bank borrowings	**(201)**	–
– Less: amounts capitalised on qualifying assets *(Note)*	**–**	1,933
	(13,405)	(4,385)
Finance costs – net	**(11,968)**	(3,641)

Note:

During the year, the Group has no qualifying assets qualified for capitalising borrowing costs (2017: RMB1,933,000).

10 Income tax expense

British Virgin Islands ("BVI") income tax

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

Hong Kong profits tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate at 16.5% for the years ended 31 December 2018 and 2017 on the estimated assessable profit for the years. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the years.

PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% of the profits for the PRC statutory financial reporting purpose for the years ended 31 December 2018 and 2017, adjusted for those items which are not assessable or deductible for the PRC corporate income tax purpose. Certain subsidiaries of the Group are entitled to preferential tax incentives in the cities where the subsidiary is located.

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10 Income tax expense *(continued)*

PRC withholding tax

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 PRC. 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 treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on any dividends distributable by its subsidiaries established in the PRC.

At 31 December 2018, the undistributed profits of the Group's subsidiaries in the PRC that subject to the temporary differences amounted to RMB529,791,000 (2017: RMB405,422,000).

Deferred tax liabilities have not been recognised for the retained earnings of its subsidiaries as at 31 December 2017 as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed by these subsidiaries in the foreseeable future. Therefore the retained earnings before 2017 would be retained for future development of its subsidiaries in the PRC. The Group has recognised PRC withholding tax since the year ended 31 December 2018.

The income tax expense of the Group for the years is analysed as follows:

	Year ended 31 December	
	2018 **RMB'000**	**2017** **RMB'000**
Current income tax:		
PRC corporate income tax	**51,281**	37,258
Withholding tax relating to PRC subsidiaries:		
Provision for the year	**1,572**	–

Notes to the Consolidated Financial Statements

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10 Income tax expense *(continued)*

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

	Year ended 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Profit before income tax	**200,380**	160,539
Tax calculated at domestic tax rates applicable to profits in the respective countries	**52,697**	41,469
Income not subject to tax	**(7,125)**	(5,559)
Expenses not deductible for tax purposes	**2,755**	1,348
Tax losses not recognised	**2,954**	–
Withholding tax on dividend receivable from PRC subsidiaries	**1,572**	–
	52,853	37,258

11 Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue, including the weighted average number of issuable shares of which all necessary conditions are satisfied under the consideration share arrangement (Note 32), during the years.

	Year ended 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Profit attributable to equity holders of the Company (RMB$'000)	**147,527**	123,281
Weighted average number of ordinary shares in issue (thousand)	**977,462**	977,556
Weighted average number of issuable shares (thousand)	**1,727**	–
	979,189	977,556
Basic earnings per share (RMB cents)	**15.07**	12.61

(b) Diluted

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

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11 Earnings per share *(continued)*

(b) Diluted *(continued)*

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

	Year ended 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Profit attributable to shareholders of the Company for calculation of basic earnings per share	**147,527**	123,281
Effect of dilutive potential shares:		
Convertible bonds assumed to be converted at the date of issuance	–	(135)
Profit for calculation of diluted earnings per share	**147,527**	123,146

	Number of shares	
	2018	**2017**
Weighted average number of shares for calculation of basic earnings per share	**979,189**	977,556
Effect of dilutive potential shares:		
Convertible bonds assumed to be converted at the date of issuance (thousand)	–	4,233
Share options of the Company assumed to be exercised (thousand)	**1,762**	399
Weighted average number of shares for calculation of diluted earnings per share	**980,951**	982,188
Diluted earnings per share (RMB cents)	**15.04**	12.54

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12 Dividends

	Year ended 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Final dividend paid during the year:		
2017 final dividend HK$0.026 per ordinary share	**20,757**	21,685
Interim dividend declared and paid during the year:		
2018 interim dividend of HK$0.017 per ordinary share		
(2017: HK$0.016 per ordinary share)	**14,750**	13,291
Final dividend declared after the year end:		
2018 final dividend of HK$0.027 per ordinary share		
(2017: HK$0.026 per ordinary share)	**22,583**	20,422

The Board has declared that an interim dividend of HK$0.017 per share for the six months ended 30 June 2018 to shareholders whose names appear in the Register of Members on 29 November 2018.

On 27 March 2019, the board of directors proposed a final dividend of in respect of the year ended 31 December 2018 of approximately RMB22.6 million (2017: RMB20.4 million), representing HK$0.027 per ordinary share (2017: HK$0.026 per ordinary share). Such dividend is to be approved by the shareholders at the Annual General Meeting of the Company. This proposed final dividend is not reflected as a dividend payable as of 31 December 2018, but will be recorded as a distribution of reserves for the year ending 31 December 2019.

13 Leasehold land and land use rights

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

	Year ended 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
At 1 January	**56,976**	58,425
Acquisition of subsidiaries	**11,233**	–
Amortisation *(Note 7)*	**(1,688)**	(1,449)
At 31 December	**66,521**	56,976

Amortisation of leasehold land and land use rights of RMB1,359,000 (2017: RMB1,159,000) have been included in 'cost of sales' and RMB329,000 (2017: RMB290,000) have been charged in 'general and administrative expenses' for the year ended 31 December 2018.

As at 31 December 2018 and 2017, the Group's leasehold land and land use rights were pledged to secure bank borrowings granted to the Group (Note 26).

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14 Property, plant and equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office and computer equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017								
Cost	53,481	58,046	239	60,663	4,590	5,285	71,671	253,975
Accumulated depreciation	(2,268)	(13,425)	(92)	(13,242)	(1,437)	(2,548)	–	(33,012)
Net book amount	51,213	44,621	147	47,421	3,153	2,737	71,671	220,963
Year ended 31 December 2017								
Opening net book amount	51,213	44,621	147	47,421	3,153	2,737	71,671	220,963
Additions	8,184	7,500	–	–	387	749	4,366	21,186
Transfer	33,411	8,425	–	3,334	–	–	(74,367)	(29,197)
Disposals	–	–	–	–	–	(2)	–	(2)
Depreciation *(Note 7)*	(3,528)	(2,813)	(32)	(5,727)	(445)	(711)	–	(13,256)
Closing net book amount	89,280	57,733	115	45,028	3,095	2,773	1,670	199,694
At 31 December 2017								
Cost	95,076	73,971	238	63,997	4,978	6,000	1,670	245,930
Accumulated depreciation	(5,796)	(16,238)	(123)	(18,969)	(1,883)	(3,227)	–	(46,236)
Net book amount	89,280	57,733	115	45,028	3,095	2,773	1,670	199,694
Year ended 31 December 2018								
Opening net book amount	**89,280**	**57,733**	**115**	**45,028**	**3,095**	**2,773**	**1,670**	**199,694**
Acquisition of subsidiaries	**63,153**	**–**	**88**	**6,179**	**335**	**227**	**27**	**70,009**
Additions	**–**	**4,806**	**78**	**3,021**	**22**	**280**	**2,455**	**10,662**
Transfer	**–**	**768**	**–**	**178**	**–**	**–**	**(946)**	**–**
Disposals	**–**	**–**	**–**	**(37)**	**–**	**–**	**–**	**(37)**
Depreciation *(Note 7)*	**(7,104)**	**(3,617)**	**(56)**	**(6,164)**	**(390)**	**(830)**	**–**	**(18,161)**
Closing net book amount	**145,329**	**59,690**	**225**	**48,205**	**3,062**	**2,450**	**3,206**	**262,167**
At 31 December 2018								
Cost	**158,229**	**79,545**	**404**	**73,338**	**5,335**	**6,507**	**3,206**	**326,564**
Accumulated depreciation	**(12,900)**	**(19,855)**	**(179)**	**(25,133)**	**(2,273)**	**(4,057)**	**–**	**(64,397)**
Net book amount	**145,329**	**59,690**	**225**	**48,205**	**3,062**	**2,450**	**3,206**	**262,167**

Depreciation of RMB10,601,000 (2017: RMB7,816,000) has been charged in 'cost of sales' and RMB7,560,000 (2017: RMB5,440,000) has been charged in 'general and administrative expenses' for the year ended 31 December 2018, respectively.

As at 31 December 2018, the net book value of buildings of RMB77,123,000 (2017: RMB17,655,000) was pledged to banks for securing the Group's general banking facilities (Note 26).

Plant and machinery, office and computer equipment and furniture and fixtures amounted RMB24,790,000 was pledged to a leasing company for securing the Group's loans from a leasing company for the year ended 31 December 2017, the loans were fully settled during the year (Note 26).

Construction in progress as at 31 December 2018 mainly comprises plants and production lines being constructing in the PRC (2017: new integrated development centre and plants and production lines).

During the year ended 31 December 2018, the Group has no qualifying assets qualified for capitalising borrowing costs. For the year ended 31 December 2017, borrowing costs of RMB1,933,000 were capitalised on qualifying assets at the weighted average rate of its general borrowings at 5.4% per annum.

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15 Investment properties

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Opening balance at 1 January	**34,000**	–
Transfer from property, plant and equipment	–	**29,500**
Fair value change	**100**	**4,500**
	34,100	**34,000**

	Year ended 31 December	
	2018	2017
Amounts recognised in profit or loss for investment properties	RMB'000	RMB'000
Rental income	**439**	**267**
Fair value gain recognised	**100**	**4,500**

Principal investment properties

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

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

Information about fair value measurements using significant unobservable inputs

	Valuation techniques	Unobservable inputs	Range of unobservable inputs	
			As at 31 December 2018	As at 31 December 2017
Retail-Ground floor	Direct comparison	Adjusted market price (RMB/square meter)	5,500-7,000	5,500-7,000
Retail-others	Direct comparison	Adjusted market price (RMB/square meter)	4,000-5,500	4,000-5,500

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16 Subsidiaries

The following is a list of the principal subsidiaries as at 31 December 2018:

Name	Place of incorporation/ establishment and kind of legal entity	Nature of business and place of operation	Particulars of issued/ registered share capital	Effective equity interest held
Directly held by the Company				
Tianyi Holding Hong Kong Ltd.	Hong Kong	Investment holding and trading of processed fruit products in Hong Kong	100 ordinary shares of HK$100	100%
Indirectly held by the Company				
臨沂同泰食品機械製造有限公司 (Linyi Tongtai Food Machine Manufacture Co., Ltd.)	The PRC, limited liability company	Manufacturing and trading of food machinery in the PRC	Registered and paid-in capital of USD39,500,000	100%
山東天同食品有限公司 (Shandong Tiantong Food Co., Ltd.)	The PRC, limited liability company	Manufacturing and sales of processed fruit products and trading of fresh fruits in the PRC	Registered and paid-in capital of RMB180,000,000	100%
天同食品(宜昌)有限公司 (Tingtong Food (Yichang) Ltd.)	The PRC, limited liability company	Manufacturing and sales of processed fruit products and trading of fresh fruits in the PRC	Registered capital of RMB100,000,000	100%

17 Inventories

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials	**8,198**	12,123
Work in progress	**21,140**	11,380
Finished goods	**60,912**	52,224
	90,250	75,727

The cost of inventories sold recognised as expense and included in 'cost of sales' amounted to RMB621,567,000 (2017: RMB503,164,000) for the year ended 31 December 2018.

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18 Financial instruments by category

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Assets as per consolidated statement of financial position		
– Trade receivables	**110,056**	99,745
– Other receivables (excluding prepayments)	**2,059**	3,454
– Cash and cash equivalents	**464,590**	309,167
Liabilities as per consolidated statement of financial position		
– Trade payables	**26,951**	25,178
– Other payables	**6,837**	7,478
– Amount due to a substantial shareholder	**88,826**	–
– Bank and other borrowings	**157,769**	81,677
– Convertible bonds	**–**	59,535

19 Trade and other receivables

		At at 31 December	
		2018	2017
	Note	RMB'000	RMB'000
Trade receivables	*(a)*	**110,056**	99,745
Prepayments	*(b)*	**58,975**	59,397
Other receivables	*(b)*	**2,059**	3,454
		171,090	162,596
Less: non-current portion:			
Prepayment for property, plant and equipment		**(13,660)**	–
Prepayments for land use rights		**(42,000)**	(42,000)
Prepayments paid for business acquisition		**–**	(12,855)
Current portion		**115,430**	107,741

(a) Trade receivables

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

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Less than 30 days	**56,748**	58,300
31 to 60 days	**52,114**	39,279
61 to 90 days	**998**	2,166
91 to 120 days	**116**	–
121 to 180 days	**80**	–
	110,056	99,745

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19 Trade and other receivables *(continued)*

(a) Trade receivables *(continued)*

As at 31 December 2018, trade receivables of RMB1,194,000 were past due but not yet impaired (2017: RMB645,000). These relate to a number of independent customers for whom there is no recent history of default and based on past experience, the overdue amounts can be recovered.

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

	As at 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Overdue		
Less than 30 days	**998**	200
31 to 60 days	**116**	327
61 to 90 days	**80**	–
91 to 120 days	**–**	118

The trade receivables are denominated in the following currencies:

	As at 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
RMB	**100,742**	90,054
USD	**9,314**	9,691
	110,056	99,745

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

(b) Prepayments and other receivables

The carrying amounts of prepayments and other receivables approximate their fair values. The prepayment and other receivables are mainly denominated in RMB. Other receivables do not contain impaired assets. The non-current portion of the prepayment included a refundable balance of RMB42 million at the PRC government for participating in the auction for a parcel of land close to the existing production facilities in Shangdong.

20 Cash and cash equivalents

	As at 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Cash at banks and on hand	**464,590**	309,167

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20 Cash and cash equivalents *(continued)*

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

	As at 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
RMB	**431,872**	284,791
HK$	**16,763**	4,395
USD	**15,955**	19,981
	464,590	309,167

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

21 Share capital

Authorised ordinary share

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

Issued and fully paid ordinary share

	Number of ordinary share	Share capital HK$'000	Equivalent share capital RMB'000
As at 1 January 2016	1,000,000,000	310,072	248,057
At 31 December 2016 and 1 January 2017	983,000,000	296,309	236,114
Buy-back of shares *(Note a)*	(5,538,000)	(4,098)	(3,655)
As at 31 December 2017 and 1 January 2018	977,462,000	292,211	232,459
Dividends relating to 2017 paid *(Note b)*	–	(12,643)	(10,326)
Dividends relating to 2018 paid *(Note b)*	–	(16,617)	(14,750)
As at 31 December 2018	977,462,000	262,951	207,383

Notes:

(a) Buy-back of shares

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

(b) Distribution of share capital as dividends

During the year ended 31 December 2018, the Company has paid dividends relating to 2017 and 2018 amounted RMB20,757,000 and RMB14,750,000 respectively. Share capital amounted RMB25,076,000 was distributed as dividends.

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22 Reserves

	Capital reserve RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000 *(Note)*	Revaluation reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total reserves RMB'000
Balance at 1 January 2017	43,213	(3,100)	22,500	–	2,318	265,115	330,046
Profit for the year	–	–	–	–	–	123,281	123,281
Revaluation gain arising from transfer of property, plant and equipment to investment properties	–	–	–	303	–	–	303
Share-based compensation expenses	–	–	–	–	605	–	605
Dividends paid *(Note 12)*	(34,976)	–	–	–	–	–	(34,976)
Cancellation of repurchased shares *(Note 21)*	2,194	–	–	–	–	–	2,194
Balance at 31 December 2017	10,431	(3,100)	22,500	303	2,923	388,396	421,453
Balance at 1 January 2018	**10,431**	**(3,100)**	**22,500**	**303**	**2,923**	**388,396**	**421,453**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**147,527**	**147,527**
Share-based compensation expenses	**–**	**–**	**–**	**–**	**135**	**–**	**135**
Transfer of reserves	**–**	**–**	**32,962**	**–**	**–**	**(32,962)**	**–**
Dividends paid *(Note 12)*	**(10,431)**	**–**	**–**	**–**	**–**	**–**	**(10,431)**
Release of reserve upon share options lapsed	**–**	**–**	**–**	**–**	**(676)**	**676**	**–**
Balance at 31 December 2018	**–**	**(3,100)**	**55,462**	**303**	**2,382**	**503,637**	**558,684**

Note:

Statutory reserve

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

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

Statutory reserve during the years represents the statutory surplus reserve of the PRC subsidiaries amounting to RMB55,462,000 (2017: RMB22,500,000).

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23 Share-based payment

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

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

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

No share option granted was exercised during the years ended 31 December 2018 and 2017.

(a) The following table discloses details of the Company's share options held by employees and movements in such holdings for the year ended 31 December 2018:

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding at 1/1/2018 (thousands)	Lapsed during the year (thousands)	Outstanding at 31/12/2018 (thousands)
6 October 2015	1.7	6 October 2015 – 31 December 2015	1 January 2016 – 31 December 2018	3,000	(3,000)	–
6 October 2015	1.7	6 October 2015 – 31 December 2016	1 January 2017 – 31 December 2019	1,500	–	1,500
6 October 2015	1.7	6 October 2015 – 31 December 2017	1 January 2018 – 31 December 2020	1,500	–	1,500
21 April 2016	0.97	21 April 2016 – 31 December 2016	1 January 2017 – 31 December 2019	3,850	–	3,850
21 April 2016	0.97	21 April 2016 – 31 December 2017	1 January 2018 – 31 December 2020	1,925	–	1,925
21 April 2016	0.97	21 April 2016 – 31 December 2018	1 January 2019 – 31 December 2021	1,925	–	1,925
				13,700	(3,000)	10,700

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

	2018		2017	
	Average exercise price in HK$ per share option	Number of shares (thousands)	Average exercise price in HK$ per share option	Number of shares (thousands)
At 1 January	**1.29**	**13,700**	1.29	13,700
Granted	**–**	**–**	–	–
Lapsed	**1.70**	**(3,000)**	–	–
At 31 December	**1.18**	**10,700**	1.29	13,700

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

For the year ended 31 December 2018, the total expenses for share options granted to employees amount to RMB135,000 (2017: RMB605,000) had been recognised as and included in "employee benefit expenses" in the consolidated statement of comprehensive income.

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24 Trade payables

	As at 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Trade payables	**26,951**	25,178

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

	As at 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Less than 30 days	**20,028**	20,995
31 to 90 days	**3,727**	1,947
91 to 180 days	**1,830**	1,653
181 to 365 days	**464**	528
Over 365 days	**902**	55
	26,951	25,178

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

25 Accruals and other payables

	As at 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Accrued employee benefit expenses	**6,826**	3,784
Land taxes, surcharges and other taxes payables	**5,500**	4,685
Other payables for purchases of property, plant and equipment	**1,472**	2,398
Others	**5,365**	5,080
	19,163	15,947

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

	As at 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
RMB	**17,603**	14,108
HK$	**1,560**	1,839
	19,163	15,947

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

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26 Bank and other borrowings

	As at 31 December 2018			As at 31 December 2017		
	Current portion RMB'000	Non-current portion RMB'000	Total RMB'000	Current portion RMB'000	Non-current portion RMB'000	Total RMB'000
Bank borrowings	**103,948**	**27,535**	**131,483**	68,000	–	68,000
Other loan	**26,286**	**–**	**26,286**	–	–	–
Loans from a leasing company	**–**	**–**	**–**	13,677	–	13,677
	130,234	**27,535**	**157,769**	81,677	–	81,677

The Group's bank and other borrowings were repayable as follows:

	2018			2017		
	Bank borrowings RMB'000	Other loan RMB'000	Total RMB'000	Bank borrowings RMB'000	Loans from a leasing company RMB'000	Total RMB'000
Within 1 year	**103,948**	**26,286**	**130,234**	68,000	13,677	81,677
Between 1 and 2 years	**27,535**	**–**	**27,535**	–	–	–
	131,483	**26,286**	**157,769**	68,000	13,677	81,677

(a) The carrying amounts of bank and other borrowings approximate their fair values and are denominated in RMB. The weighted effective interest rates of bank and other borrowings were 5.95% per annum during the year (2017: 5.4% per annum).

(b) During the year ended 31 December 2016, the Group entered into two sales and leaseback agreements with a leasing company for certain assets, which included plant and machinery, office and computer equipment and furniture and fixtures ("Secured Assets"), amounted to RMB40,000,000. The arrangements were for a period of 3 years. Upon maturity, the Group will be entitled to purchase the Secured Assets in minimal consideration. The Group considered that it was almost certain that it would exercise this repurchase option. As substantial risks and rewards of the Secured Assets were retained by the Group before and after these arrangements, the transactions were regarded as secured borrowings. The Group has repaid the loan during the year ended 31 December 2018 and all Secured Assets were purchased.

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27 Convertible bonds

During the year, the Group issued a convertible bond with principal value of USD4,000,000 (equivalent to approximately RMB26,032,000) with interest of 6% per annum. The bond matures one year from the date of issue of bond at their principal value or can be converted into ordinary shares at the holder's option at rate HK$1.58 per conversion share. The maximum number of ordinary shares to be converted to 19,696,202 shares.

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

The entire convertible bonds were designated as a financial liability through profit or loss and classified as current liability as at 31 December 2017. All of the fair value measurements of the Group convertible bonds were categorise into Level 2 of the fair value hierarchy as at December 2017.

During the year, the Group has redeemed all the outstanding amount of the USD9,000,000 convertible bond. None of them was converted up to 31 December 2018.

The Group also exercised its early redemption rights under USD4,000,000 convertible bond and has redeemed all the outstanding amount during the year ended 31 December 2018. None of them was converted up to 31 December 2018.

	As at 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
As at 1 January	**59,535**	–
Fair value of convertible bonds issued	**26,032**	59,670
Re-measurement on convertible bonds:		
Exchange difference	**5,700**	(863)
Fair value loss	**–**	728
Redemption of convertible bonds	**(91,267)**	–
As at 31 December	**–**	59,535

The Group's convertible bond was valued by an independent professional valuer, Roma Appraisals Limited, by using binomial model with the following key assumptions for the financial year ended 31 December 2017:

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

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28 Notes to the consolidated statement of cash flows

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

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Profit before income tax	**200,380**	160,539
Adjustments for:		
Interest income *(Note 9)*	**(1,437)**	(744)
Interest expenses *(Note 9)*	**12,639**	2,852
Transaction costs for issuance of convertible bonds *(Note 9)*	**565**	1,533
Transaction costs for bank borrowings *(Note 9)*	**201**	–
Loss on disposals of property, plant and equipment *(Note 7)*	**37**	2
Depreciation of property, plant and equipment *(Note 7)*	**18,161**	13,256
Amortisation of land and land use rights *(Note 7)*	**1,688**	1,449
Share-based compensation expenses *(Note 8)*	**135**	605
Fair value gain on investment properties *(Note 6)*	**(100)**	(4,500)
Re-measurement on convertible bonds *(Note 6)*	**4,973**	(135)
Fair value change of the contingent consideration payable *(Note 6)*	**(2,254)**	–
	234,988	174,857
Changes in working capital:		
Increase in inventories	**(5,673)**	(10,608)
Increase in trade receivables	**(10,311)**	(17,082)
Decrease/(increase) in prepayments and other receivables	**3,769**	(5,469)
(Decrease)/increase in trade payables	**(1,135)**	10,447
Decrease in accruals and other payables	**(2,273)**	(853)
Cash generated from operations	**219,365**	151,292

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Bank borrowing payable after one year RMB'000	Amount due to a substantial shareholder RMB'000	Bank and other borrowing payable within one year RMB'000	Convertible bonds RMB'000	Total RMB'000
At 1 January 2018	–	–	81,677	59,535	141,212
Issuance of convertible bond	–	–	–	26,032	26,032
Financing cash flows	–	88,826	34,925	(90,540)	33,211
Gain on redemption	–	–	–	(727)	(727)
Debt acquired from business combination *(Note 32)*	27,535	–	11,353	–	38,888
Foreign exchange	–	–	2,279	5,700	7,979
	27,535	88,826	130,234	–	246,595

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

(b) Net debt reconciliation *(continued)*

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

29 Contingencies

The Group did not have any material contingent liabilities as at 31 December 2018 and 2017.

30 Commitments

(i) Operating lease commitments

(a) As lessor

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

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Not later than 1 year	**141**	611
Later than 1 year and no later than 5 years	**355**	1,238
	496	1,849

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30 Commitments *(continued)*

(i) Operating lease commitments *(continued)*

(b) As lessee

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

	As at 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Not later than 1 year	**352**	432
Later than 1 year and no later than 5 years	**–**	352
	352	784

(ii) Capital commitments

Capital expenditure contracted for but not yet incurred and provided for as of 31 December 2018 amounted to RMB12,813,000 (2017: RMB17,396,000).

31 Related party balances and transactions

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

The then ultimate and immediate holding company of the Company was Wealthy Active Limited ("Wealthy Active"), a company incorporated in the British Virgin Islands with limited liability. The then ultimate controlling shareholder was Mr. Yang Ziyuan ("Mr. Yang"). On 27 September 2018, Wealthy Active entered into a conditional share transfer agreement with Sichuan Development International Holding Company Limited (四川發展國際控股有限公司) (the "Purchaser" or "SDIH"), pursuant to which, Wealthy Active agreed to dispose of, and the Purchaser agreed to purchase 263,914,740 shares of the Company, representing 27.0% of the Company's share capital in issue at a total consideration of HK$416,985,289.20 (the "Sales Share"). The Purchaser is a wholly owned subsidiary of Sichuan Development Holding Company Limited (四川發展(控股)有限責任公司) ("SDH") which a state-owned enterprise established by the Sichuan Provincial People's Government in January 2009.

On 22 October 2018, the Sales Shares was completed and the shareholding of Wealthy Active in the Company decreased from 46.2% to 19.2%. As a result of the Sales Shares, SDIH becomes a substantial shareholder of the Company.

(a) The directors are of the view that the following companies were related parties that had balances with the Group during the years ended 31 December 2018 and 2017:

Name of the related party	Principal business activities	Relationship with the Group
Wealthy Active Limited	Investment holding in British Virgin Islands	Substantial Shareholder

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31 Related party balances and transactions *(continued)*

(b) Balance with a related party

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

	As at 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Amount due to a substantial shareholder – Wealthy Active Limited	**88,826**	–
Interest paid to a substantial shareholder – Wealthy Active Limited	**563**	–

As at 31 December 2018, amount due to a substantial shareholder was unsecured, with interest at rate 5.8% per annum and repayable with one year. The carrying amount of amount due to a substantial shareholder approximated its fair value and is denominated in HKD.

(c) Key management compensation

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

	Year ended 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Basic salaries, allowances and benefits in kind	**3,555**	2,125
Social security costs	**67**	50
Defined contribution – MPF	**35**	36
Share-based compensation expenses	**13**	76
	3,670	2,287

32 Business combination

On 31 January 2018, the Group completed the acquisition of 100% of issued shares in Strong Won Investments Limited ("Strong Won") and its subsidiaries (together "Strong Won Group"), which is principally engaged in the production and sales of processed fruits products in Hubei. The acquisition of Strong Won Group is to broaden the production base in the PRC.

The consideration was settled by a combination of (i) HK$33.0 million (approximately RMB27.4 million) of the Consideration settled in cash and (ii) a maximum of HK$22.0 million (approximately RMB17.8 million) of the Consideration settled by way of allotment and issue at maximum of 17,188,000 new Shares (the "Consideration Shares") at the consideration of HK$1.28 per share. The share price of the Company on the date of completion 31 January 2018 ("Completion Date") was HK$1.38.

Based on the final purchase price allocation, the following table summarises the consideration paid for Strong Won and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	RMB'000
Consideration	
Fair value of share consideration	17,804
Cash consideration paid	27,452
Total consideration as at acquisition date	45,256

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32 Business combination *(continued)*

	RMB'000
Contingent consideration payable *(Note a)*	
At 31 January 2018	17,804
Fair value change of the contingent consideration payable	(2,254)
At 31 December 2018	15,550

Note a:

The contingent consideration arrangement requires the Group to pay the former owners of Strong Won at the maximum of 17,188,000 new shares, subject to the aggregate amount of production volume and the total amount of revenue from Strong Won Group during the period of three years commencing from the Completion Date. The fair value of the contingent consideration payable as at 31 December 2018 amounted to RMB15,550,000.

	RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	69,982
Leasehold land and land use right	11,233
Construction in progress	27
Inventories	8,850
Other receivables, deposits and prepayments	1,147
Bank balances and cash	198
Trade payables	(2,908)
Accruals and other payables	(5,489)
Bank borrowing	(38,888)
Total identifiable net assets acquired	44,152
Add: Goodwill on business combination	1,104
	45,256

	RMB'000
Net cash outflow on acquisition of business	
Cash consideration paid	27,452
Cash and cash equivalents acquired	(198)
Total cash outflow	27,254

Notes:

(i) Goodwill on business combination

The Group recognised the goodwill of approximately RMB1,104,000 as the result of the business combination. The main reason giving rise to the goodwill is the synergy brought to the Group from the increased the production capacity on new and existing processed fruit products while the production base can also facilitate the Group in its warehousing and logistics arrangement for its own brand products in the central part of the PRC.

(ii) Acquisition-related costs of RMB269,000 are included in general and administrative expenses in profit or loss in the financial period 31 December 2017 and 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

33 Statement of financial position and reserve movement of the Company

Statement of financial position of the Company

		As at 31 December	
		2018	2017
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Investment in a subsidiary		**–**	–
Amount due from a subsidiary		**268,559**	313,539
		268,559	313,539
Current assets			
Cash and cash equivalents		**3,913**	1,780
		3,913	1,780
Total assets		**272,472**	315,319
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		**207,383**	232,459
Reserves	*Note (a)*	**3,709**	21,486
Total equity		**211,092**	253,945
LIABILITIES			
Current liabilities			
Accruals and other payables		**46**	1,839
Convertible bonds		**–**	59,535
Bank and other borrowings		**61,334**	–
Total current liabilities		**61,380**	61,374
Total equity and liabilities		**272,472**	315,319

The statement of financial position of the Company was approved by the Board of Directors on 27 March 2019 and was signed on its behalf.

Mr. Yang Ziyuan	**Mr. Sun Xingyu**
Director	*Director*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

33 Statement of financial position and reserve movement of the Company *(Continued)*

(a) Reserve movement of the Company

	Capital reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	43,213	2,318	12,509	58,040
Loss for the year	–	–	(4,377)	(4,377)
Cancellation of repurchased shares	2,194	–	–	2,194
Dividends relating to 2016 paid	(21,685)	–	–	(21,685)
Dividends relating to 2017 paid	(13,291)	–	–	(13,291)
Employees share option scheme:				
– share-based compensation expenses	–	605	–	605
At 31 December 2017	10,431	2,923	8,132	21,486
At 1 January 2018	**10,431**	**2,923**	**8,132**	**21,486**
Loss for the year	**–**	**–**	**(7,481)**	**(7,481)**
Dividends relating to 2017 paid	**(10,431)**	**–**	**–**	**(10,431)**
Employees share option scheme:				
– share-based compensation expenses	**–**	**135**	**–**	**135**
Release of reserve upon share options lapsed	**–**	**(676)**	**676**	**–**
At 31 December 2018	**–**	**2,382**	**1,327**	**3,709**

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

34 Benefits and interests of directors

(a) Directors' and chief executive's emoluments

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

For the year ended 31 December 2018:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:								
Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors									
Mr. Yang Ziyuan	121	1,243	15	-	-	31	-	-	1,410
Mr. Sun Xingyu	121	87	14	-	-	21	-	-	243
Mr. Wang Hu (appointed on 22 October 2018)	-	-	-	-	-	-	-	-	-
Non-executive directors									
Ms. Chu Yinghong	121	-	-	-	-	-	-	-	121
Mr. Wong Yim Pan	121	-	-	-	-	-	-	-	121
Mr. Liu Zhumeng (appointed on 22 October 2018)	-	-	-	-	-	-	-	-	-
Independent and non-executive directors									
Mr. Liang Zhongkang	121	-	-	-	-	-	-	-	121
Mr. Tsang Yuen Wai	121	-	-	-	-	-	-	-	121
Ms. Hui Yung Yung	121	-	-	-	-	-	-	-	121

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

34 Benefits and interests of directors *(continued)*

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

The remuneration of every directors and the chief executive is set out below: *(continued)*

For the year ended 31 December 2017:

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

There was no arrangement during the years ended 31 December 2018 and 2017 under which a director waived or agreed to waive any remuneration, and no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

34 Benefits and interests of directors *(Continued)*

(b) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2017: nil)

(c) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the year (2017: nil).

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

No payment was made to the former employer of directors for making available the services of them as a director of the Company (2017: nil).

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

There were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2017: nil).

35 Events occurring after the reporting period

Investment in subsidiary

On 8 January 2019, the Group entered into a non-binding memorandum of understanding with SDH to utilise their strengths to develop a base for source of supply of raw material and supply chain for processed agricultural and food products in Sichuan Province in China and other agriculture related projects.

On 11 February 2019, the Company and Sichuan Yizhan Enterprise Co., Limited (四川怡展實業有限公司), a subsidiary of SDIH, entered into a conditional Joint Investment Agreement to establish a joint venture company (四川天韵國際實業有限公司) in Sichuan Province for development a supply chain for processed agricultural and food products and a base for supply of raw material.

Five-Year Financial Summary

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

RESULTS

	Year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	**940,507**	745,541	653,474	553,618	447,678
Profit before tax	**200,380**	160,539	166,358	129,017	113,517
Income tax expense	**(52,853)**	(37,258)	(37,582)	(32,100)	(24,206)
Profit for the year	**147,527**	123,281	128,776	96,917	89,311

ASSETS AND LIABILITIES

	As at 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Assets					
Non-current assets	**419,552**	345,525	321,388	232,314	72,514
Current assets	**670,270**	492,635	374,310	354,251	122,301
Total assets	**1,089,822**	838,160	695,698	586,565	194,815
Equity and liabilities					
Total equity	**766,067**	653,912	566,160	489,282	118,330
Non-current liabilities	**43,085**	–	13,677	–	–
Current liabilities	**280,670**	184,248	115,861	97,283	76,485
Total liabilities	**323,755**	184,248	129,538	97,283	76,485
Total equity and liabilities	**1,089,822**	838,160	695,698	586,565	194,815

Note:

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

Corporate Information

Board of Directors

Executive Directors

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

Non-executive Directors

Ms. Chu Yinghong
Mr. Wong Yim Pan
Mr. Liu Zhumeng

Independent Non-executive Directors

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

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Strategic Development Committee

Mr. Yang Ziyuan *(Chairman)*
Mr. Sun Xingyu
Mr. Wang Hu
Ms. Chu Yinghong
Mr. Wong Yim Pan
Mr. Liang Zhongkang
Mr. Liu Zhumeng
Mr. Ho Ho Tung Armen

Company Secretary

Mr. Ho Ho Tung Armen

Authorised Representatives

Mr. Sun Xingyu
Mr. Ho Ho Tung Armen

Headquarters and Principal Place of Business in China

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

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

Conyers Trust Company (BVI) Limited
Commerce House
Wickhams Cay 1
P.O. Box 3140, Road Town
Tortola
British Virgin Islands
VG1110

Principal Place of Business in Hong Kong

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Beautiful Group Tower
74-77 Connaught Road Central
Central
Hong Kong

Branch Share Registrar and Transfer Office in Hong Kong

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Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Legal Adviser as to Hong Kong Law

Raymond Siu & Lawyers
Unit 1802, 18th Floor
Ruttonjee House
11 Duddell Street, Central
Hong Kong

Legal Adviser as to PRC Law

Jingtian & Gongcheng
34/F., Tower 3
China Central Place
77 Jianguo Road
Chaoyang District
Beijing 100025
the PRC

Principal Bankers

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

Auditor

PricewaterhouseCoopers
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Hong Kong

Company's Website

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Stock Code

6836