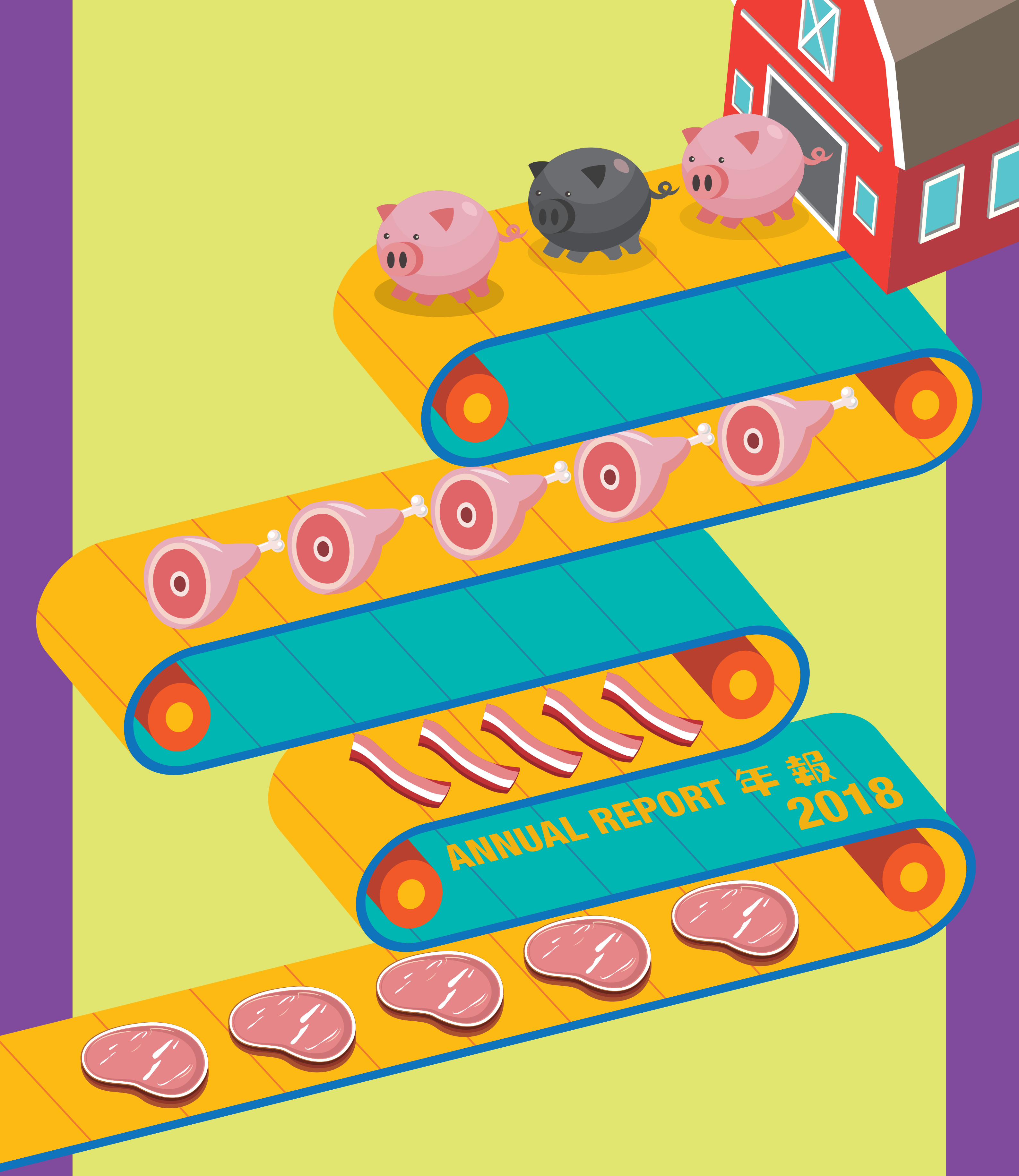
CHINA PUTIAN FOOD HOLDING LIMITED
中國普甜食品控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)
Stock Code 股份代號: 1699

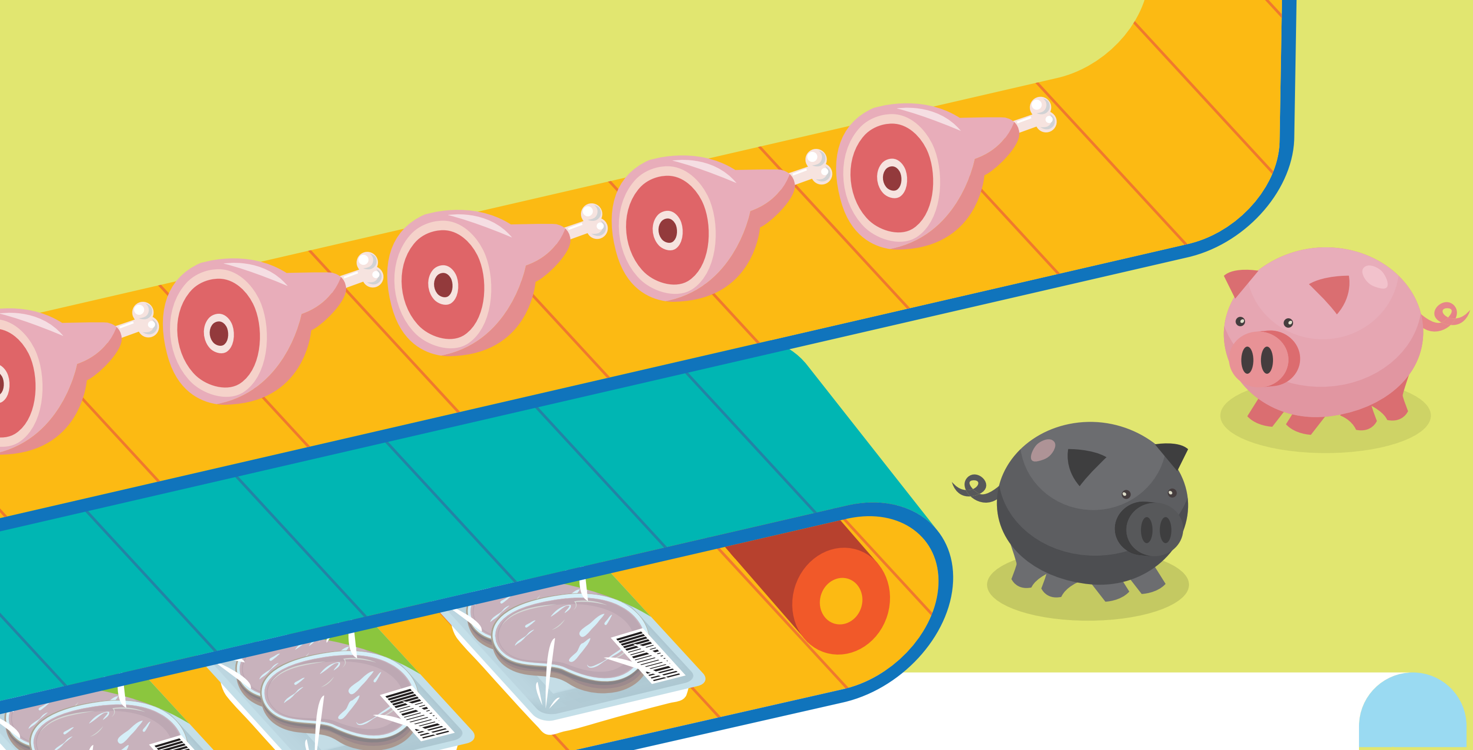


CHINA PUTIAN FOOD HOLDING LIMITED
中國普甜食品控股有限公司

領先的垂直一體化豬肉供應商

PORK PRODUCTS SUPPLIER

LEADING VERTICALLY INTEGRATED



CONTENTS

THANK YOU

Corporate Information

DIRECTORS

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

Independent Non-Executive Directors
Mr. Wu Shiming
Mr. Cai Zirong
Mr. Wang Aiguo

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

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

LEGAL ADVISOR

Ince & Co

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

PRINCIPAL BANKER

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

www.putian.com.hk

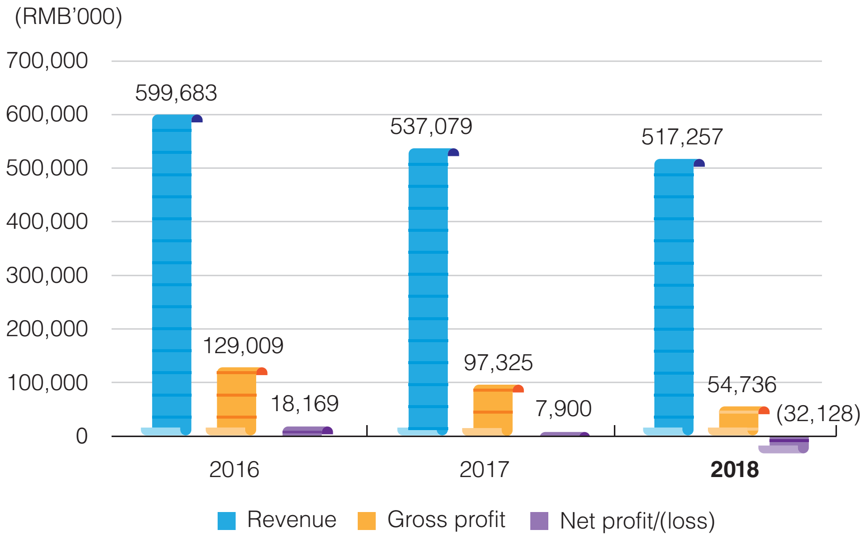
STOCK CODE

1699

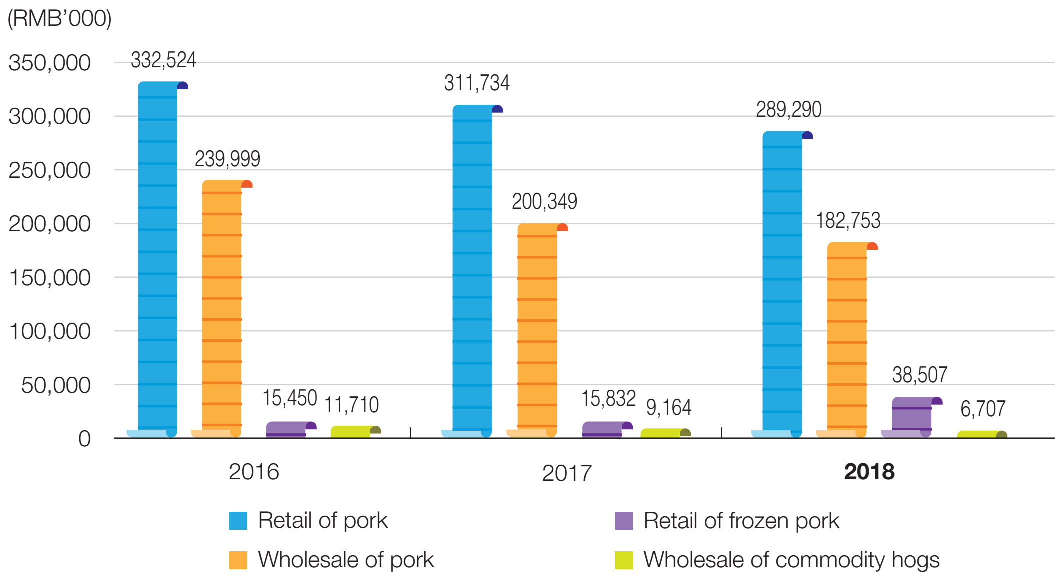
FINANCIAL HIGHLIGHTS

	Year 2016 RMB'000	Year 2017 RMB'000	**Year 2018 RMB'000**
Revenue	599,683	537,079	**517,257**
Gross profit	129,009	97,325	**54,736**
Net profit/(loss)	18,169	7,900	**(32,128)**
Revenue by products			
— Retail of pork	332,524	311,734	**289,290**
— Wholesale of pork	239,999	200,349	**182,753**
— Retail of frozen pork	15,450	15,832	**38,507**
— Wholesale of commodity hogs	11,710	9,164	**6,707**

REVENUE, GROSS PROFIT AND NET PROFIT/(LOSS)



REVENUE BY PRODUCTS



FINANCIAL HIGHLIGHTS (CONTINUED)

KEY PERFORMANCE INDICATORS

	Year 2016	Year 2017	**Year 2018**
Gross profit margin (%)	21.5	18.1	**10.6**
Net profit/(loss) margin (%)	3.0	1.5	**(6.2)**
Gearing ratio (%) (Note 1)	55.8	65.6	**73.8**
Current ratio (times) (Note 2)	1.1	1.0	**1.0**
Quick ratio (times) (Note 3)	0.9	0.8	**0.9**
Earnings/(loss) per share ratio (Note 4)	RMB1.14 cents per share	RMB0.49 cents per share	**RMB(1.93) cents per share**

Note 1: Gearing ratio was calculated by dividing interest-bearing borrowings, amount due to a shareholder, bank overdrafts, obligation under finance lease and convertible bonds by the total equity of the Group as at the end of the year.

Note 2: Current ratio represents total current assets divided by total current liabilities as of the end of the year.

Note 3: Quick ratio represents total current assets less inventories divided by total current liabilities as of the end of the year.

Note 4: Earnings/(loss) per share ratio represents the earnings/(loss) attributable to the owners of the Company divided by the weighted average number of ordinary shares.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Putian Food Holding Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 ("Reporting Period").

INDUSTRY AND BUSINESS REVIEW

2018 is an unusual year for the hog sector in China. With the development of the domestic economy and society, consumers' demand for high-end product has been supported by stronger financial capabilities. Further improved policies and regulations for the industry, diversified products available in the market and rising scientific and technologic level of breeding provide great opportunities to responsible and ambitious enterprises. Amid all the positives, however, the industry has also been challenged like never before. The African Swine Fever virus had swept through various provinces and cities in China from an outbreak only in few farms, threatening the whole industry. Due to strong management, the Group's farms were not affected by such epidemic. Meanwhile, we become more aware of the responsibility of Putian as a listed company.

CHAIRMAN'S STATEMENT (CONTINUED)

In the past year, we established more strict rules and regulations on our business operation, including personnel management, goods management, vehicle management, animal control, food management and disinfection system. We have been committed to creating the cleanest, most healthy and safest breeding and production environment in China and it proved to be satisfactory. Despite the overall sales price and volume of hog were impacted by the policy forbidding the allocation and delivery of hog and hog products in the second half of the year, no epidemic was identified in all our farms and our revenue recorded an increase.

Our confidence towards the high-end pork industry in China never wavers. Under the"White to Black" (白轉黑) initiative, in 2018, we made continuous efforts in promoting our products under "Putian Black Pearl" to further improve its market-awareness and popularity among consumers. Currently, the black hog products are available for consumers in Fujian, Beijing, Shanghai and Hong Kong. During the Reporting Period, sales revenue from "Putian Black Pearl" products amounted to approximately RMB190,397,000, increasing by 14.0% as compared to RMB167,019,000 for the preceding year and representing approximately 36.8% of total revenue. Due to our effective promotion, sales of black hog products in Beijing and Putian were relatively higher.

Generally, in 2018, the Group's pork retail business generated revenue of approximately RMB289,290,000 (2017: approximately RMB311,734,000), representing approximately 55.9% of the Group's total revenue (2017: 58.0%) and remaining the main source of revenue of the Group. During the expansion of direct retail outlets, we continued to cooperate with the strongest supermarket in the world and chain supermarkets which have branches nationwide. In 2018, a direct sales store in Shanghai, as well as retail points under CSF Market system, Carrefour system, Hualian system and Wal-Mart system, were added to our portfolio. As at 31 December 2018, the Group's sales network consists of 78 retail counters in supermarkets and 16 direct retail outlets. Our retail counters are set in supermarkets and department stores with regional influence such as Beijing C.P. Lotus, Fujian New Huadu, Wal-mart, China Resources Vanguard, Century Lianhua, RT-Mart, CSF Market, Carrefour, Hualian, etc. The Group's network covers the eastern coastal area of Fujian, including Fuzhou, Putian, Quanzhou, Xiamen and Zhangzhou, and has achieved remarkable results in Beijing and Shanghai.

The pork wholesale business continued generating stable revenue for the Group and recorded approximately RMB182,753,000 during the Reporting Period, decreasing from approximately RMB200,349,000 for 2017. It was mainly due to (i) the Group reduced the proportion of white pork products while promoting black pork products; (ii) selling price of white pork products decreased as market price of white pork decreased in the first half of the year 2018 in the PRC; (iii) government's policy on forbidding hog allocation and delivery to prevent African Swine Fever was another factor affecting sales, though no facilities of the farms under the Group were directly affected during the Reporting Period.

Since its incorporation, the Group has been upholding its mission of "creating gratifying life for the general public" and complying with the highest standards of food safety and product quality to pursue the development of breeding-slaughter-sales in a vertically integrated business mode. In 2018, the Group continued to adopt the strategy of parallel development of farms in Hebei and Fujian, seeing stable output rate of white hog and fortifying black hog breeding bases. The farm in Xuanhua, Hebei maintained a good condition with gradually improved capacity utilization rate. In 2018, 4,463 black hogs were ready for slaughter, representing a significant increase as compared with 1,347 black hogs in 2017. The capacity utilization rate of Shiti (石梯) and Xianglixiang (鄉里香) farms in Putian had vast space to improve due to the fact that they were under the early stage of boar introduction for reproduction and are bringing in boars in batches.

PROSPECTS

On the macro level, there is no doubt that China's GDP growth slowed down with downward pressure of the overall economy, which may affect the terminal consumption capacity. The pressure brought by the African Swine Fever has not yet dispersed in the industry, and certain small and medium-sized hog breeding farms may face a crisis. However, as a full industry chain safe food integration operator, we believe this may be an opportunity for industrial consolidation and development. With continuous optimization of the domestic consumption structure, higher requirements for food health and safety as well as further development of the national regulatory measures, the pork industry will step into a new stage of development. We have formulated a stable expansion blueprint for 2019. We plan to establish its sales systems in Sam's Club under Wal-mart, Hema Xiansheng (盒馬鮮生) and China Resource OLE, and simultaneously open 10 direct sales outlets, so as to continue to steadily improve our brand equity.

CHAIRMAN'S STATEMENT (CONTINUED)

The PRC has been one of the largest pork products consumers country. Currently, black pork products account for less than 1% of the overall pork market in China, which demonstrates the development space and potential of China's black pork market. Since the launch of "Putian Black Pearl" brand in 2014, the Group has continuously increased its proportion of black pork products in overall sales and has expanded it to such key areas as Fujian, Beijing, Shanghai and Hong Kong. Putian black pork has rich unsaturated fatty acids and lower cholesterol, and its high protein content is also in line with the health requirements of Chinese people. In the future, we plan to extend our black pork product lines by developing cooked products, snacks and deep-processed products under "Putian Black Pearl".

In January 2018, the Group was approved to build the first national hog gene pool in China. Once mature, the Group will work with partners to explore new areas of genetic research and bioscience experiment. Recognitions gained from the authorities and industry giants enable us to have full confidence in the Group's development. By adhering to the mission of "Protecting Fine Breed for People's Health" (為國保良種、為民護健康), we will continue to optimize the industrial structure and promote the sound development of the Group and the industry .

With the operating objective that Putian has long upheld, the Group continues to improve and optimize in various aspects such as production and management. In addition, the industry becomes increasingly regulated, helping to improve its quality and develop healthy competition, so that the Group can actively develop diversified and promising consumer market. I believe that the Group's potential revenue and brand image will remain healthy and optimistic.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, investors, customers and business partners for their long-term support and trust to the Group. Putian will make continuous efforts to improve the Group's production, sales and management, and continue to produce high-quality pork, making safe and healthy pork served for more families.

I would also like to thank the management team and all staff member for their united devotion and hard work. Looking forward, Putian still relies on the employees of the Group to continue to work hard and together develop the "Putian" brand into "the No. 1 brand of high-end safe pork in China".

By the order of the Board
Cai Chenyang
Chairman and Chief Executive Officer

Hong Kong, 28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

The national large-scale vertically integrated pork products supply service of the Group ranges from hog farming, hog slaughtering to pork distribution with a well-developed operation model. The Group owns a slaughterhouse in Fujian Province that meets national "5-star" standard and two hog farms in Xuanhua, Hebei and Shiti and Xianglixiang, Putian, respectively. The major physical sales markets of the Group are Fujian, Beijing, Shanghai and Hong Kong. The Group also has e-commerce sales channels in place. The main pork products of the Group include chilled whole hog carcasses, separated pork, frozen pork (for retail), and by-product of internal organs etc. The Group intends to focus on the development of black hog products in the future.

INDUSTRY REVIEW

During the Reporting Period, affected by various international political and economic factors, the global economy experienced fluctuation. During the Reporting Period, however, the gross world product maintained a healthy growth rate of 3.7%, up 0.1% as compared to the previous year. According to the National Bureau of Statistics of China, the annual gross domestic production (GDP) for 2018 is RMB90,030.9 billion with a growth rate of 6.6%. The per capita annual disposable income of urban residents throughout the country is RMB39,251, representing year-on-year increase of 5.6%. The per capita disposable income of urban residents in Fujian Province, the business base of the Group, continued to increase significantly by 8.0% to RMB42,121 as compared to the previous year. Rising income continues to drive up the demand and level of consumption. People begin to pursue more diversified and personalised products in addition to the pursuit of quality.

In hog sector, according to the National Bureau of Statistics of China, during the Reporting Period, the production volume of pork increased to 54.04 million tonnes and the pork price decreased by 8.1% in the PRC as compared with the previous year. In Fujian Province, both price and production volume of pork showed signs of decline: the consumer price of pork decreased by 8.2% and the production volume of pork in the province decreased by 11.9% to 1,131,200 tonnes as compared with the previous year.

The PRC has been one of the largest pork products consumers country. With increase in income and improvement in quality of life, the industry has moved towards the development of high-end products for recent years. Quality, safety and green are basic concern for the mid-class food consumers. In the second half of 2018, the industry was challenged by the outbreak of African Swine Fever. Each of the affected enterprises, along with the government, acted promptly to prevent and control the disease to ensure the health and stable supply of hogs. Putian, Fujian, one of the Group's production base, suspended operations and sales of hogs for 6 weeks as required by the People's Government of Putian, Fujian Province and recovered operation in December 2018 upon stringent monitor and assessment.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As a vertically integrated pork products supplier holding an entrenched position with its high-end pork brand near the coastal regions in Fujian and Beijing, the Group has gradually become well known for its capital, equipment, and technology strength. Meanwhile, the Group focuses on the development of nutritious and delicious high-end black hog products in conjunction with the "National Production and Development Plan of Hog (2016-2020)" promulgated by the Ministry of Agriculture in 2016, the "New Environment Protection Law" issued in 2015 and the development direction of "southern hog farms relocating to northern China" (南豬北養) and "upgrading quality, enhancing efficiency, stabilising supply, ensuring safety and improving the ecology" under No. 1 Document of the Central Government for 2019 (2019年中央一號文件).

BUSINESS REVIEW

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB517,257,000, representing a decrease of approximately 3.7% as compared with approximately RMB537,079,000 for the year ended 31 December 2017, and the loss for the year was approximately RMB32,128,000; whilst the profit for the year ended 31 December 2017 was approximately RMB7,900,000. The decrease in net profit was mainly because (i) the decrease of gross profit of approximately 43.8% mainly resulting from the decrease in selling price of white pork products as the market price of white pork decreased in the first half of the year 2018 in the PRC; (ii) the impact from the suspension of operations and sales (including the Group's slaughterhouses and breeding farms located in Chengxiang district even though no outbreak of African Swine Fever pandemic was found in such slaughterhouses and breeding farms), during the surveillance period which sustains for 6 weeks, imposed by the government's policy on hog industry overhaul during the occurrence of African Swine Fever pandemic in Chengxiang district, Putian city of Fujian Province. No live hogs therein have been culled owing to African Swine Fever; (iii) the increase in finance costs of the finance lease and other borrowings; (iv) the decrease in gain arising from the change in fair value less costs to sell of biological assets and (v) the decrease in gain arising from fair value change of derivative financial liability.

"Putian Black Pearl", the Group's black hog brand, continued to develop in a stable manner. The black hog farm in Xuanhua, Hebei has maintained a good operation and production condition with rising capacity and capacity utilization rate and approximately 4,463 black hogs were ready for slaughter, with a capacity utilisation rate of approximately 29% during the Reporting Period. Approximately 13,690 black hogs were ready for slaughter in the Shiti (石梯) and Xianglixiang (鄉里香) farms in Putian, Fujian, representing a capacity utilisation rate of approximately 46% during the Reporting Period. Two new black hog farms are still at the early stage of introducing boars for reproduction and it takes time to produce commodity hogs from boars. As a result, the current capacity utilisation rate is still low.

For sales business, the Group set a direct sales store in Shanghai and added 19 retail points in supermarkets to its portfolio, including CSF Market, Carrefour, Hualian and Wal-mart, during the year. Besides, sales channels have been diversified and expanded from supermarkets, distributors to franchisee, VIP, gift companies and e-commerce. The Group has also diversified its forms of products available for sale in supermarkets by introducing separated pork package, in addition to the existing fresh-keeping package, gift package and frozen products. The market penetration rate of "Putian Black Pearl", the high-end brand of the Group, has been further improved. During the year, products under "Putian Black Pearl" were well-received in key markets including Fujian, Beijing, Shanghai and Hong Kong, among which, the particularly outstanding sales in Fujian and Beijing were related to the Group's on-line and off-line promotion. Currently, revenue from the sales of "Putian Black Pearl", which covers various channels, contributed approximately 36.8% to the total revenue during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

1. Revenue

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

	For the year ended 31 December			
	2018		2017	
	RMB'000	% of total revenue	RMB'000	% of total revenue
Revenue				
Retail of pork	**289,290**	**55.9**	311,734	58.0
Wholesale of Pork	**182,753**	**35.3**	200,349	37.3
Retail of Frozen Pork	**38,507**	**7.5**	15,832	3.0
Wholesale of Commodity Hogs	**6,707**	**1.3**	9,164	1.7
	517,257	**100**	537,079	100

The total revenue of the Group decreased by 3.7% from approximately RMB537,079,000 for the year ended 31 December 2017 to approximately RMB517,257,000 for the year ended 31 December 2018. During the Reporting Period, the decrease in total revenue was attributable to the selling price of white pork products decreased as market price of white pork decreased in the first half of the year 2018 in the PRC. However, the Group failed to realise a portion of product sales due to the government's policy on forbidding hog allocation and delivery during the second half of the year ended 31 December 2018. Despite the gradual materialisation of the Group's "White to Black" strategy in respect of product sales, the Group will continue to implement its new strategy of sales in order to further penetrate its products under the brand of "Putian" into the pork market.

Revenue from Retail of Pork

The Group's revenue from retail of pork decreased by around 7.2% from approximately RMB311,734,000 for the year ended 31 December 2017 to approximately RMB289,290,000 for the year ended 31 December 2018. Such decrease in revenue was mainly affected by the sales strategy of "White-to-Black" currently implemented by the Group to adjust the proportion of black pork and white pork. The selling price of white pork products decreased as market price of white pork decreased in the first half of the year 2018 in the PRC. The government's policy on forbidding hog allocation and delivery to prevent African Swine Fever, though no facilities of the farms under the Group were directly affected during the Reporting Period.

The Group continued to expand its sales network to improve its retail market share. During the year, the Group set 5 new direct sales outlets in Fujian and Shanghai and 21 new retail points in the supermarkets in Beijing, Quanzhou and Xiamen, Fujian, including CSF Market, Carrefour, Hualian and Wal-mart. As at 31 December 2018, the Group had 78 retail counters, mainly in supermarkets and department stores with regional influence over places such as New Huadu, Wal-mart, China Resources Vanguard, Century Lianhua, RT-Mart, etc. In Beijing, the Group launched retail sales through certain influential counters in supermarkets or department stores such as New World, C.P. Lotus Corporation and Ella Supermarket (小象生鲜). The Group had 16 direct sales outlets located in Putian, Fuzhou, Shanghai and Hong Kong. During the Reporting Period, the Group proactively developed online business, reflected by the opening of e-commerce channel in Beijing and Putian in addition to 9 off-line retail points of fresh products. The Board of the Group is of the view that "Putian" has gradually gained confidence of consumers and aims to boost sales through publicity campaigns, improvement of brand affinity and customer loyalty, along with multi-channel distribution in the future.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Revenue from Wholesale of Pork

For the year ended 31 December 2018, revenue from the wholesale of pork of the Group was approximately RMB182,753,000, representing a decrease of approximately 8.8% as compared to RMB200,349,000 for the year ended 31 December 2017. Such change in revenue was mainly because the Group was reducing the proportion of white pork products to promote black pork products. The selling price of white pork products decreased as market price of white pork decreased in the first half of the year 2018 in the PRC. The government's policy on forbidding hog allocation and delivery to prevent African Swine Fever was another factor affecting sales, though no facilities of the farms under the Group were directly affected during the Reporting Period.

Revenue from Retail of Frozen Pork

Sales revenue from frozen pork products increased by 143.2% from approximately RMB15,832,000 for the year ended 31 December 2017 to approximately RMB38,507,000 for the year ended 31 December 2018. Our frozen pork products are mainly sold to renowned meat processors in Fujian Province. The revenue from retail of frozen pork increased significantly over the last year, mainly due to the Group's targeted promotion for the black pork products, thereby increasing sales of high-end black pork products.

Revenue from Wholesale of Commodity Hogs

Revenue from wholesale of commodity hogs decreased by 26.8% from approximately RMB9,164,000 for the year ended 31 December 2017 to approximately RMB6,707,000 for the year ended 31 December 2018. The Group continued to optimize the high-end pork products, diversify products and expand distribution channels to improve the market awareness of its brands.

2. Gross Profit and Gross Profit Margin

	For the year ended 31 December			
	2018		2017	
	RMB'000	**Gross Profit Margin (%)**	RMB'000	Gross Profit Margin (%)
Gross Profit and Gross Profit Margin				
Retail of pork	**28,109**	**9.7**	56,929	18.3
Wholesale of pork	**18,629**	**10.2**	35,722	17.8
Retail of frozen pork	**6,859**	**17.8**	1,729	10.9
Wholesale of commodity hogs	**1,139**	**17.0**	2,945	32.1
	54,736	**10.6**	97,325	18.1

The overall gross profit of the Group notched a decrease of approximately 43.8% from approximately RMB97,325,000 for the year ended 31 December 2017 to approximately RMB54,736,000 for the year ended 31 December 2018. The overall gross profit margin of the Group decreased from approximately 18.1% for the year ended 31 December 2017 to approximately 10.6% for the year ended 31 December 2018. The decrease of gross profit was attributable to the fact that the selling price of white pork products decreased as market price of white pork decreased in the first half of the year 2018 in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross Profit and Gross Profit Margin for the Retail of Pork

Gross profit for the retail of pork decreased from approximately RMB56,929,000 for the year ended 31 December 2017 to approximately RMB28,109,000 for the year ended 31 December 2018. Gross profit margin of the retail of pork decreased from approximately 18.3% for the year ended 31 December 2017 to approximately 9.7% for the year ended 31 December 2018. The decrease in gross profit and gross profit margin of the retail of pork was mainly due to the impact owing to the government's policy on hog sector overhaul during the occurrence of the African Swine Fever and the decrease in selling price of white pork products as market price of white pork decreased in the first half of the year 2018 in the PRC.

Gross Profit and Gross Profit Margin for the Wholesale of Pork

Gross profit for the wholesale of pork decreased from approximately RMB35,722,000 for the year ended 31 December 2017 to approximately RMB18,629,000 for the year ended 31 December 2018. Gross profit margin of the wholesale of pork decreased from approximately 17.8% for the year ended 31 December 2017 to approximately 10.2% for the year ended 31 December 2018. The drop in gross profit and gross profit margin for the wholesale of pork was due to the impact owing to the government's policy on hog sector overhaul during the occurrence of the African Swine Fever and the decrease in selling price of white pork products as market price of white pork decreased in the first half of the year 2018 in the PRC.

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

Frozen food business is relatively new to the Group. Gross profit of frozen pork products increased from approximately RMB1,729,000 for the year ended 31 December 2017 to approximately RMB6,859,000 for the year ended 31 December 2018. Gross profit margin of frozen pork products increased from approximately 10.9% for the year ended 31 December 2017 to approximately 17.8% for the year ended 31 December 2018. The increase in gross profit and gross profit margin of frozen products was due to the Group's targeted promotion for the black pork products, thereby increasing sales of high-end black pork products.

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

For the year ended 31 December 2018, gross profit of wholesale of commodity hogs was approximately RMB1,139,000, representing a decrease of approximately 61.3% as compared with approximately RMB2,945,000 for the year ended 31 December 2017. Gross profit margin decreased to approximately 17.0% for the year ended 31 December 2018 from approximately 32.1% for the year ended 31 December 2017. The decrease in gross profit and gross profit margin for the wholesale of commodity hogs was mainly due to the decrease of price of hogs in the prevailing market during the Reporting Period.

3. Loss for the year

For the year ended 31 December 2018, the Group recorded a loss of approximately RMB32,128,000 (profit for the year ended 31 December 2017: approximately RMB7,900,000) due to the following reasons: (i) the Group was in the transition period of "White to Black" strategy; (ii) the decrease of gross profit of approximately 43.8% mainly resulting from the decrease in selling price of white pork products as the market price of white pork decreased in the first half of the year 2018 in the PRC; (iii) the impact from the suspension of operations and sales (including the Group's slaughterhouses and breeding farms located in Chengxiang district even though no outbreak of African Swine Fever pandemic was found in such slaughterhouses and breeding farms), during the surveillance period which sustains for 6 weeks, imposed by the government's policy on hog industry overhaul during the occurrence of African Swine Fever pandemic in Chengxiang district, Putian city of Fujian Province; (iv) the increase in finance costs of the finance lease and other borrowings; (v) the decrease in gain arising from the change in fair value less costs to sell of biological assets and (vi) the decrease in gain arising from fair value change of derivative financial liability.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES

Financial Resources

The Group primarily finances the capital requirements of our operations by internally generated cashflow and bank facilities. As at 31 December 2018, cash and cash equivalents amounted to approximately RMB9,091,000 (2017: approximately RMB7,475,000). As of 31 December 2018, the net cash used generated from operating activities amounted to approximately RMB32,874,000 (2017: net cash used in operating activities of approximately RMB17,016,000).

Issue and Redemption of Convertible Bond and Note

On 28 September 2016, the Company, Vandi Investments Limited (the "Investor"), a limited liability company incorporated in the BVI indirectly and wholly-owned by CCB International (Holdings) Limited and Mr. Cai Chenyang, chairman of the Board, chief executive officer of the Company and the sole shareholder of Zhan Rui Investments Limited (展瑞投資有限公司) ("Zhan Rui"), a controlling shareholder of the Company, entered into a subscription agreement (the "Subscription Agreement") in respect of the issuance of (i) the convertible bond in a principal amount of HK$150,000,000 due 2018 ("Convertible Bond due 2018") with an annual interest rate of 5.0%, payable semi-annually and an administrative fee of 2.0% per annum which was deducted in a lump sum from the issue price at the closing of subscription and issuance of the Convertible Bond due 2018 on 13 October 2016; and (ii) the non-convertible note in the principle amount of HK$110,000,000 due 2018 (the "Note") with an annual interest rate of 6% payable semi-annually in arrears and an administrative fee of 2% per annum which was deducted as a lump sum from the issue price at the closing of the subscription and issue of the Note on 13 October 2016.

The information regarding the Convertible Bond due 2018 and the Note is set out in the Company's announcements dated 28 September 2016 and 13 October 2016. The Convertible Bond due 2018 and the Note were issued to the Investor on 13 October 2016 pursuant the Subscription Agreement. Under the terms of the Convertible Bond and the Note, the Convertible Bond and the Note were due on 15 October 2018.

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

If the order book volume weighted average price of the stock price for any 10 consecutive trading days in Hong Kong Stock Exchange is lower than HK$0.40, the conversion price will be adjusted to HK$0.44. Upon full conversion of the Convertible Bond due 2018 at the conversion price of HK$0.44 per share, a total of 320,000,000 conversion shares with a par value of HK$0.05 each ("Conversion Shares") would have been issued ("Convertible Price Adjustment"), representing 16.94% of the total number of the issued Share of the Company as at 31 December 2018 and approximately 14.49% of the total number of the issued Share of the Company as enlarged by the issue of the Conversion Shares (assuming no exercise of subscription rights of and the Share Options). The conversion price has been adjusted to HK$0.44 since August 2017.

As at 31 December 2018, the Convertible Bond due 2018 and the Note were not redeemed or converted (if applicable).

The proceeds from the issue of the Convertible Bond due 2018, after deducting (i) the amount for discharge of the payment obligations owed by the Company to the Investor under the Convertible Bonds due 2017; (ii) the administrative fee for the Convertible Bond due 2018; (iii) the amount paid by the Company regarding the expenses incurred by the Investor in connection with the transaction documents in relation to be Convertible Bond due 2018 and the relevant matters up to the Closing Date; and (iv) the interest paid or to be paid under the Convertible Bond due 2018, were approximately HK$4.1 million (equivalent to approximately RMB3.5 million) and such amount were fully applied to develop the business of black hog farming.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Dilution effect of the conversion of Convertible Bond due 2018

The following table sets out the total number of Shares as at 31 December 2018 and the total number of Shares if there had been full conversion of the outstanding Convertible Bond due 2018 as at 31 December 2018:

	As at 31 December 2018		Full conversion of Convertible Bond due 2018 as at 31 December 2018	
Shareholders	Number of Shares	Approximately % of issued Shares	Number of Shares	Approximately % of issued Shares
Zhan Rui	1,006,000,000	53.26	1,006,000,000	45.54
Sze Ching Lau	100,476,000	5.32	100,476,000	4.55
BCAGI	99,000,000	5.24	99,000,000	4.48
Subscriber	—	—	320,000,000	14.49
Other public Shareholders	683,524,000	36.18	683,524,000	30.94
Total	1,889,000,000	100.00	2,209,000,000	100.00

Dilution impact on loss per share

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

Loss for the year ended 31 December 2018 attributable to owners of the Company	RMB32,128,000
Weighted average number of Company's shares in issue as at 31 December 2018	Approximately 1,661,759,900
Basic loss per share	RMB1.93 cents
Diluted loss per share assuming full conversion of Convertible Bond due 2018 as at 31 December 2018 (Note)	RMB1.93 cents

Note: Diluted loss per share is the same as basic loss per share as the potential ordinary shares on exercise of Convertible Bond due 2018 are anti-dilutive.

On 15 October 2018, the Company announced that it was in negotiation with the Investor on the extension and amendment of terms of the Convertible Bond due in 2018 and the Note. It has been confirmed that the extension of the maturity date of both the Group's convertible bonds and non-convertible notes, if any, would be no more than six months from 15 October 2018, subject to the execution of an amendment deed poll.

As at 31 December 2018, the holder of the Convertible Bond due 2018 has not required the Company to redeem the Convertible Bond due 2018. Thus, an analysis on the Company's share price at which it would be equally financially advantageous for the holder of the Convertible bond due 2018 to convert or redeem Convertible Bond due 2018 based on their implied rate of return at a range of dates in the future is not applicable.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Subscription and Allotment of New Shares under Specific Mandate involving Connected Person

On 30 July 2018, the Company announced to enter into the subscription agreements with Zhan Rui and BCAG International (HK) Limited ("BCAGI", an independent third party and a wholly-owned subsidiary of Beijing Capital Agribusiness Group), pursuant to which Zhan Rui and BCAGI has conditionally agreed to subscribe for 190,000,000 and 99,000,000 new shares of the Company respectively (each as "Zhan Rui Subscription Shares" and "BCAGI Subscription Shares") at a subscription price of HK$0.140 per subscription share. The aggregate gross proceeds of the subscription are HK$40,460,000, and the aggregate net proceeds of the subscription (after deducting all applicable costs and expenses reasonably incurred in relation to the entering of the subscription agreements) are HK$39,900,000. The net proceeds were used for the following (i) approximately HK$26,600,000 has been utilized for partial settlement of the amount due to Mr. Cai Chenyang, chairman of the Board, chief executive officer of the Company, by the Company; (ii) approximately HK$12,300,000 has been utilized for partial settlement of the bank borrowing in the principal amount of RMB18,000,000 (equivalent to approximately HK$21,600,000) due in December 2018; and (iii) approximately HK$1,000,000 for settlement of the bank borrowing in the principal amount of HK$1,000,000.

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

(i) approximately 18.06% of the existing issued share capital of the Company as at 30 July 2018; and

(ii) approximately 15.30% of the issued share capital of the Company as enlarged by the proposed allotment and issue of Zhan Rui Subscription Shares and BCAGI Subscription Shares as at 15 October 2018.

Zhan Rui Subscription Shares and BCAGI Subscription Shares were allotted and issued on 15 October 2018 under specific mandate granted by the shareholders of the Company (other than Mr. Cai Chenyang and its associates) at the extraordinary general meeting of the Company and rank *pari passu* in all respects among themselves and with the issued Shares of the Company on 5 October 2018.

Proposed Subscription and Allotment of New Shares under General Mandate and Lapse of Subscription

On 17 September 2018 (after trading hours), the Company announced that it entered into a subscription agreement with Best Tower Holdings Limited ("Best Tower") ("Subscription Agreement (Best Tower)"), pursuant to which Best Tower has conditionally agreed to subscribe 79,840,000 new shares of the Company ("Best Tower Subscription Shares") at a subscription price of HK$0.281 per subscription share. The gross proceeds of the subscription are HK$22,435,040, and the net proceeds of the subscription, after deducting all related fees and expenses, are estimated to be approximately HK$22,085,000. Information related to Best Tower Subscription Shares is set out in the announcements of the Company dated 17 September 2018.

On 30 November 2018 (after trading hours), the Company announced that it entered into a supplemental agreement to the Subscription Agreement (Best Tower) pursuant to which parties agreed to extend the Long Stop Date (as defined in the Subscription Agreement (Best Tower)) from 30 November 2018 to 31 December 2018 (or such other date as may be mutually agreed). The extension of the Long Stop Date was primarily because additional time was required for the fulfilment of the conditions precedent (ii) and (v) set out in the Subscription Agreement (Best Tower) for completion. Parties were of the belief that all conditions precedent to the Subscription Agreement (Best Tower) shall be fulfilled on or before 31 December 2018. Information related to the extension of Long Stop Date and the entry of the supplemental agreement to the Subscription Agreement (Best Tower) is set out in the announcements of the Company dated 30 November 2018 and 10 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

On 31 January 2019, the Company announced that as of 31 December 2018, conditions precedent (ii) and (v) set out in the Subscription Agreement (Best Tower) had not been satisfied and parties to the Subscription Agreement (Best Tower) could not reach any further agreements. The Subscription Agreement (Best Tower) and all rights and obligations thereunder have therefore ceased and terminated accordingly and none of the parties thereto shall have any claim against the other (without prejudice to the rights of the parties in respect of any antecedent breaches). Information related to lapse of subscription is set out in the announcements of the Company dated 31 January 2019.

Bank borrowings, Bank Overdrafts and Pledged Assets

As at 31 December 2018, the total amounts of interest-bearing bank borrowings and bank overdrafts were approximately RMB158,712,000 and RMBNil respectively (31 December 2017: bank borrowings and bank overdrafts of approximately RMB167,446,000 and RMB4,132,000 respectively), all of which were denominated in RMB and bore a floating interest rate. As at 31 December 2018, the bank borrowings of approximately RMB149,950,000 were secured by pledge/charge over the Group's property, plant and equipment and land with total carrying value of approximately RMB103,220,000 (31 December 2017: approximately RMB113,230,000), and secured by guarantees provided by the Company and Mr. Cai Chenyang, bank borrowing of RMB8,762,000 was only secured by guarantee of Mr. Cai Chenyang, who was chairman of the Board, chief executive officer and controlling shareholder of the Company.

Gearing Ratio

As at 31 December 2018, the gearing ratio of the Group was 73.8% (31 December 2017: 65.6%). This was calculated by dividing interest-bearing borrowings, amount due to a shareholder, bank overdrafts, obligation under finance lease and convertible bonds by the total equity of the Group as at 31 December 2018.

Foreign Exchange Risk

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

Material Acquisitions and Disposals of Subsidiaries

Save as disclosed herein, the Group had no material acquisitions and disposals of subsidiaries during the year.

Disposal of Interest in a Joint Venture Company

On 13 June 2018, the Company and Beijing Heiliu Muye Keji Company Limited* (北京黑六牧業科技有限公司) (the "JV Partner") entered into a transfer agreement, pursuant to which, the Company agreed to transfer all of its 40% equity interest in Hebei Shoulong Heiliu Putian Muye Company Limited* (河北首農黑六普甜牧業有限公司) (the "JV Company") to the JV Partner and the JV Partner assumed the obligations of the Company to contribute RMB40,000,000 to the JV Company. Upon completion of the disposal, the Company no longer held any equity interest in the JV Company.

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

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Establishment of the Fund

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

The principal business of the Fund would be investments in unlisted companies and unlisted shares of listed corporations regarding agricultural area in Hebei Province of the PRC. The objective of the Fund is to invest in agricultural area in Hebei Province of the PRC to facilitate the integration of the agricultural resources and the development of the agricultural product market in the region. It is expected that the Group's hog business, in particular in Hebei province, would benefit from such development. In addition, other partners of the Fund have extensive experience in investment and JICAI Fund is an investment platform under the financial department of Hebei Province, the PRC. The Directors believe that joint venturing with the other partners would foster business relationships between the Group and other partners and benefit the future development of the Group.

Information on the establishment of the Fund is set out in the announcement of the Company dated 29 January 2018.

Operating Lease Commitments

As at 31 December 2018, the Group had operating lease commitments of approximately RMB18,403,000 (31 December 2017: approximately RMB49,511,000). The relevant expenses were mainly for the leases of direct sales outlets and Beijing and Hong Kong offices.

Contingent Liabilities

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

Capital Commitments

As at 31 December 2018, the Group had capital commitments of approximately RMB75,781,000 (31 December 2017: approximately RMB73,639,000), which mainly comprised commitments for the construction in process at Hebei and Fujian.

Human Resources

As at 31 December 2018, the Group had 562 (31 December 2017: 608) employees. Staff costs (including share option scheme, sales commission, staff salaries and welfare expenses, contributions to retirement benefit schemes and staff and workers' bonus and welfare fund) amounted to approximately RMB32,345,000 (31 December 2017: approximately RMB43,947,000) during the Reporting Period. All the Group's companies treat all their employees equally, with the selection and promotion of individuals based on their suitability for the position offered. The Group operates a defined contribution mandatory provident fund retirement benefits scheme for our employees in Hong Kong, and provides our PRC employees with various welfare schemes as required by the applicable laws and regulations in the PRC.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PROSPECTS

1. Expand sales network and concentrate on high-end market promotion

In richer areas, health of pork, natural rearing and safety of package and storage are all important considerations of consumers. The Group has established the brand of "Putian" in many tier-1 cities including Beijing, Shanghai and Hong Kong, as well as in each district of Fujian, where the Group's production base lies. In the future, the Group targets to improve its brand image through publicity campaigns, promote diversified products to attract different consumers and mature customer loyalty. Next, the Group will focus on Fuzhou and Xiamen as key high-end markets and is committed to boost the sales of "Putian Black Pearl" in the following year and improve revenue generated by high-end products with higher profit margin. In 2019, the Group intends to expand its retail points into Sam's Club under Wal-mart, Hema Xiansheng and China Resource Ole' and open 10 new direct sales outlets.

2. Diversify product lines and improve product awareness

The production capacity of Xuanhua, Hebei and Shiti and Xianglixiang, Putian, the Group's target business areas has progressed well by now. In particular, the operation of Xuanhua farm in Hebei has gradually improved. In the following year, the Group will focus on maintaining stable supply of black pork, developing new products with in-house capacity, such as cooked food, leisure products and intensive processing products under "Putian Black Pearl", further leveraging on the "White to Black" strategy and improving its brand competitive edge, along with both on-line and off-line publicity and promotion. In addition to traditional stores and retail points in supermarket, the Group will also expand its distribution channel from high-end products to e-commerce, community store and family package membership. By means of multi-channel promotion and diversified products catering to different needs, the Group will develop "Putian" into a high-end brand with a view to foster deeper customers' loyalty exploring customers' base.

3. Promote "Putian" online and boost sales on e-commerce platform

The Group has expanded its WeChat Mall system into a comprehensive internet sales platform, which enlarging its sales coverage and enabling intense promotion. The product information on the e-commerce platform generates an indirect effect of publicity, allowing the Group to promote the nutrition and healthiness of pork products and the culture of "Putian" to the public, boost brand affinity and improve product transparency. The Group will further invest to attract more visits to each platform, improve the ranks of its store and boost consumers' confidence and interest in the brand. The Group targets to enter into various e-commerce platforms, including but not limited to JD.com in the form of a direct sales outlet, Miss Fresh (每日優鮮), womai.com (我買網) and YiGUO.COM. It is expected that sales from e-commerce channel will growth in 2019.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

EXECUTIVE DIRECTORS

Cai Chenyang (蔡晨陽), aged 49, is a cousin of Mr. Cai Haifang, an executive director of the Company. Mr. Cai Chenyang became a director of the Company ("Director(s)") on 27 May 2011 and has been redesignated as an executive Director and appointed as the chairman and the chief executive officer of the Company since 7 February 2012. He is also the sole shareholder and sole director of Zhan Rui Investments Limited (展瑞投資有限公司) ("Zhan Rui"), a controlling shareholder of the Company.

Mr. Cai Chenyang has over 17 years of corporate managerial experience. He commenced his career as an entrepreneur in 2001 when he founded Anhui Tianyi Investments Limited (安徽天怡投資有限公司) ("Anhui Tianyi") in Anhui Province of the PRC which was engaged in the business of real estate development. Mr. Cai Chenyang worked in the Sixth Engineering Architect Department of the Navy of the Liberation Army of the PRC (中國人民解放軍海軍第六工程建築處) as an engineer from around August 1998 to 2001.

Mr. Cai Chenyang established Tianyi (Fujian) Modern Agriculture Development Limited (天怡(福建)現代農業發展有限公司) ("Fujian Tianyi") which is the major business operating entity of the Group and has been indirectly wholly owned by the Company since April 2005. Since Fujian Tianyi's establishment, Mr. Cai Chenyang has been responsible for formulating the overall business strategy, identifying business opportunities, and overseeing capital financing of the Group. Mr. Cai Chenyang has received many honorable titles, including inter alia, Executive Member of the Council of World Fujian Youth Association (世界福建青年聯合會理事), China's Outstanding Private Enterprise Business Leader awarded in the 2009 China's Private Enterprise Business Leaders Annual Meeting (2009中國民營企業領袖年會"中國優秀民營企業家"), the Nominated Award of the 7th Fujian Province Ten Outstanding Youth (七屆福建省十大傑出青年提名獎), Outstanding Young Business Leader of the 9th Fujian Province Outstanding Young Business Leaders Associate (第九屆福建省優秀青年企業家) and the Executive Member of the 2nd Fujian Association for Promotion of Integrity (福建省誠信促進會第二屆理事會理事). Mr. Cai Chenyang is also the executive commissioner of the Political Consultation Committee of Putian City, Fujian Province (中國人民政治協商會議福建省莆田市委員).

Mr. Cai Chenyang obtained a diploma in economics and management study from the University of Science and Technology of China (中國科學技術大學) in 2004. Mr. Cai Chenyang finished the curriculum of an EMBA of Xiamen University (廈門大學) in June 2011. Mr. Cai Chenyang has studied the curriculum of an EMBA in the Tsinghua University PBC School of Finance since September 2017.

There is no specific term for Mr. Cai Chenyang regarding his directorship.

Cai Haifang (蔡海芳), aged 40, is a cousin of Mr. Cai Chenyang, an executive Director. Mr. Cai Haifang has been an executive Director since 7 February 2012.

He worked for Anhui Tianyi as the deputy chief of the sourcing office responsible for materials sourcing and costs control from around 2001 to April 2005. He joined Fujian Tianyi as the deputy chief of the sourcing office in 2005 assisting the establishment of Fujian Tianyi. From 2006 to 2008, he was the manager of the sourcing centre, where he was primarily responsible for the procurement of major assets (including production facilities and breeder hogs) for Fujian Tianyi. He was appointed as the manager of the chief executive office and the head of the sourcing department in 2008, and was responsible for the management of the sourcing department and the administration of the external affairs of Fujian Tianyi. From 2010 to January 2011, he was the assistant to the chief executive officer. In January 2011, Mr. Cai Haifang was promoted to the post of deputy chief executive officer overseeing the administrative office and the sourcing of Fujian Tianyi. In August 2015, Mr. Cai Haifang was promoted to the post of general manager of Fujian Tianyi. In 2017, Mr. Cai Haifang was promoted to the post of chairman of the board of Fujian Tianyi. Mr. Cai Haifang graduated from a secondary school in Putian, the PRC in 1997. In 2014, Mr. Cai Haifang was a college student at Putian Branch The Open University of Fujian (莆田市廣播電視大學).

There is no specific term for Mr. Cai Haifang regarding his directorship.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY (CONTINUED)

Ma Yilin (麻伊琳), aged 34, has been appointed as an executive Director since 9 August 2018. She obtained her bachelor's degree in Broadcasting and Hosting in Shanghai Theatre Academy in 2006. Ms. Ma is currently the presenter of Dragon TV under Shanghai Media Group. She has accumulated years of extensive experience in the culture and media industry and has wide relationship with people from the industry.

From October 2017 to August 2018, Ms. Ma was also an executive director of Elegance Optical International Holdings Limited, a company listed on the Stock Exchange of Hong Kong Limited (stock code: 907). Since October 2016, Ms. Ma had been a director of the Zhongyue Technology Co Ltd* (中悦科技股份有限公司), a company listed on the National Equities Exchange and Quotations (NEEQ) (stock code: 834772).

Besides, Ms. Ma is also a member of the Shanghai Municipal Committee of the Chinese People's Political Consultative Conference, Deputy Secretary — General of the Changning Youth Federation, and a member of the Shanghai Youth Federation. She is experienced in corporate strategic planning and corporate governance.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Cai Zirong (蔡子榮), aged 67, has been an independent non-executive Director since 7 February 2012. He is also the chairman of the remuneration committee of the Company and a member of the nomination committee and audit committee of the Company. Mr. Cai Zirong has over 38 years of experience in financial management. In the period from June 1978 to October 1988, he was the assistant battalion chief of the Finance Unit of the Logistic Department of the 93rd Division (93師後勤部財務科正營級助理員). He has been working in the People's Bank of China as senior management for almost 24 years. He was the Deputy Governor of the People's Bank of China of Putian County from January 1990 to November 1996 and was promoted to the position of Governor in December 1996. From February 2004 to October 2006, Mr. Cai Zirong worked as the Governor of the People's Bank of China of Xianyou County (仙游縣). He was elected as a representative of the 4th People's Congress of Putian City from year 2001 to 2005. Since September 2006, he has been of the rank of Section Chief of the publicity department of Putian City centre branch of the People's Bank of China. Mr. Cai Zirong graduated from People's Liberation Army Nanchang Army School (中國人民解放軍南昌陸軍學校) (now known as People's Liberation Army Nanchang Army College (中國人民解放軍南昌陸軍學院)) with a certificate in finance in 1985.

Wu Shiming (吳世明), aged 43, has been an independent non-executive Director since 7 February 2012. He is also the chairman of the audit committee of the Company and a member of the nomination committee and remuneration committee of the Company. From December 2008 to January 2018, he was the supervisor of the Xiamen Bank Company Limited (廈門銀行股份有限公司). He is a qualified intermediate accountant and he was awarded such qualification in December 2001 by the Ministry of Finance after having passed the national examination jointly organised by the Ministry of Finance and the Ministry of Personnel of the PRC which covered four examination papers, of which two are related to accounting practice (intermediate level), one is in financial management and one is in economic law.

* For identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY (CONTINUED)

Mr. Wu has over 22 years of experience in accounting and financial management. Mr. Wu joined Xiamen Sumpo Group Company Limited (廈門森寶集團有限公司) ("Xiamen Sumpo") in July 1995 as a cashier. He became an accountant in Xiamen Sumpo in January 1996. From January 1998 to November 2001, he was the financial manager of Xiamen Sumpo. Mr. Wu became the general manager of the Guangzhou branch of Xiamen Sumpo in December 2001 and remained in office until January 2007. Mr. Wu became the deputy general manager of Xiamen Sumpo Electronic Technology Group Limited (廈門森寶電子科技集團有限公司) in May 2007 and held such position until January 2008. From January 2008 to October 2010, Mr. Wu was the chief financial officer of Xiamen Sumpo. Mr. Wu has become the chairman of Xiamen Zhidian Software Technology Co., Ltd. (廈門支點軟體技術有限公司) since January 2017, responsible for corporate overall operation. From November 2010 to September 2017, Mr. Wu was the deputy chief executive officer of the major operating subsidiary of Leyou Technologies Holdings Limited (樂遊科技控股有限公司) (formerly known as Sumpo Food Holdings Limited (森寶食品控股有限公司)) ("Leyou", together with its subsidiaries, "Leyou Group"), a company listed on the Stock Exchange (Stock Code: 1089), overseeing its financial and operational performance (including internal control). From September 2014 to August 2016, Mr. Wu was an independent non-executive director of Pak Tak International Limited the shares of which are all listed on the Stock Exchange (Stock Code: 2668). From July 2014 to May 2018, Mr. Wu was an independent non-executive director of Yueshou Environmental Holdings Limited (the shares of which are listed on the Stock Exchange (Stock Code: 1191)). Since May 2015 and July 2018, Mr. Wu has been an independent non-executive director of Theme International Holdings Limited (the shares of which are listed on the Stock Exchange (Stock Code: 990)) and Miko International Holdings Limited (the shares of which are listed on the Stock Exchange (Stock Code: 1247)), respectively.

Mr. Wu obtained a diploma in foreign economic enterprise financial accounting at Jimei University (集美大學) in the PRC in 1995 and a degree of finance at Xian Electronic University (西安電子科技大學) in the PRC in March 2011, which is an online learning course.

Wang Aiguo (王愛國), aged 62, has been an independent non-executive Director since 28 May 2014. He is also the chairman of the nomination committee of the Company and a member of the remuneration committee and audit committee of the Company. He was a teaching assistant and a lecturer of the Faculty of Animal Husbandry of Shanxi Agricultural University and devoted himself in the teaching and scientific research in animal heredity breeding. Mr. Wang has worked in the China Agricultural University since 1993 and is now the college professor and instructor for doctorate students in the College of Animal Science and Technology of China Agricultural University, mainly engaging in the teaching, scientific research and postgraduate training on animal heredity breeding and rearing of pigs.

Mr. Wang has established extensive connection in the industry both in the mainland China and overseas and dedicated himself in the establishment of modern pig rearing and breeding system applicable to the PRC, the development and application of relevant new breeding technologies. He was in charge of many core national plans and research projects in this regard. He has also published many thesis and teaching materials, trained a number of doctoral students and postgraduates, and has obtained a national patent, developed a specialized strain of pigs as well as been in charge of the formulation of 2 national standards in the relevant field. He has obtained many awards (e.g. the Second-Class Award in State Science and Technology Progress Award) as an agricultural expert in this field. He is the committee member of many relevant organisations in the industry of animal heredity, pig rearing and breeding and related works, including the National Commission for the Livestock and Poultry Genetic Resources.

Mr. Wang obtained his bachelor's degree in Animal Husbandry in Shanxi Agricultural University in January 1982. He obtained his doctorate degree in Technical University of Munich in Germany in August 1990. He completed its post-doctoral research at Beijing Agricultural University in October 1992.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY (CONTINUED)

COMPANY SECRETARY

Ku Kin Shing, Ignatius (谷建聖), aged 57, joined the Group in May 2011 as the financial controller. He is responsible for the financial reporting matters of the Group in Hong Kong, including preparation of financial reports and ensuring the Group's compliance with the Listing Rules and other statutory requirements. In addition, he is responsible for implementing internal control and corporate governance and practices, as well as liaising with external parties and regulatory bodies in respect of the Group's financial matters.

Mr. Ku has over 26 years of experience in finance and accounting and had worked in an international accounting firm prior to joining the Group. He previously held the position of financial controller in a listed company in Singapore. Mr. Ku holds a Bachelor of Commerce (Accounting) degree from the University of Canberra, Australia. He is a member of the Australian Society of Certified Practicing Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ku has been an executive Director of China Putian Food Development Company Limited (an indirect wholly owned subsidiary of the Company) since 3 December 2013. Mr. Ku was, from 1 July 2015 to 26 March 2018, an independent director of Centron Telecom International Holding Limited (the shares of which are listed on the Stock Exchange (Stock Code: 1155)).

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The directors of the Company (the "Directors") are pleased to present the corporate governance report for the year ended 31 December 2018 as follows.

The board of Directors of the Company (the "Board") is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure. The Board believes that good corporate governance is beneficial for maintaining close and trustful relations with its employees, business partners, shareholders and investors.

The Company has adopted a corporate governance code prepared based on the code provisions (the "Code Provisions") of the latest revised Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from time to time as the guidelines for corporate governance of the Company, and has taken steps to comply with the Code wherever appropriate.

Unless the context otherwise requires, terms used herein shall have the same meaning as those defined in the Listing Rules.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2018, the Company has complied with the Code Provisions with the following exceptions:

Under Code Provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

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

COMPLIANCE WITH DEED OF NON-COMPETITION

The Company has received a confirmation (the "Confirmation") from Zhan Rui Investments Limited and Mr. Cai Chenyang (the "Covenantors") signed by them on 28 March 2019 respectively confirming that for the period from 1 January 2018 to 31 December 2018 and up to the date of signing the Confirmation by the relevant Covenantors, they have fully complied with the deed of non-competition executed by the Covenantors in favour of the Group on 22 June 2012 (the "Deed of Non-Competition") and, in particular, they and their respective Associates have not, directly or indirectly, carry on or be engaged or interested in (i) production and sale of pork products; (ii) sale of hogs; (iii) sale of side products produced during the production process of pork products; (iv) slaughtering and processing of hogs; and (v) any other business which, directly or indirectly, compete or may compete with the business previously carried on by or other business that may be carried on by the Group.

The independent non-executive Directors have reviewed the Confirmation and all of them are satisfied that the Deed of Non-Competition has been complied with during the period under review.

CORPORATE GOVERNANCE REPORT (CONTINUED)

DIRECTORS

The Board

The Board, led by the chairman, steers the Company's business direction. It is responsible for formulating the Company's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

The Directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended by a majority of the Directors in person or through other electronic means of communication.

Board Composition

There are currently 6 Directors, responsible to the shareholders for formulating the overall business development targets and long-term company strategies, assessing results of management policies and monitoring performance of the management. The Board currently comprises the following Directors:

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

Independent Non-executive Directors
Mr. Cai Zirong
Mr. Wang Aiguo
Mr. Wu Shiming

An updated list of the Directors by category identifying their role and function is at all times available on the websites of the Company and the Stock Exchange. The list specifies whether the Director is an independent non-executive Director and expresses the respective membership of each Director in each Board committee.

The Company identifies the independent non-executive Directors in all corporate communications which disclose the names of Directors.

Details of the biographies of the Directors are given under the section "Biographical Details of Directors and Company Secretary" of this annual report on pages 19 to 22.

Save as disclosed in the section "Biographical Details of Directors and Company Secretary" of this annual report, there are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

The independent non-executive Directors play an important role on the Board. Accounting for more than one third of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders of the Company and the Group as a whole. Throughout the year of 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications on accounting or related financial management expertise. The number of independent non-executive Directors has represented at least one-third of the Board.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Number of meetings attended in 2018

During the year of 2018, the Board held 4 regular meetings at about quarterly intervals and 4 additional meeting(s) which were held regarding special matters which required the Board's decisions.

As regards general meetings, the Company held the annual general meeting on 27 June 2018 and an extraordinary general meeting on 5 October 2018 to consider the matters regarding subscription of new shares. A table summary in regard to the Directors' participation at the various Board meetings and the Company's general meeting(s) is set out below. Directors' participation at the meetings of the audit committee of the Company ("Audit Committee"), the nomination committee of the Company ("Nomination Committee"), and the remuneration committee of the Company ("Remuneration Committee") (collectively, the "Board Committees") is set out at paragraph headed "Board Committees" of this section below.

Meetings Held in 2018

	Regular Board Meetings	Additional Board Meetings concerning Special Matters requiring the Board's Decisions	General Meetings
Executive Directors			
Cai Chenyang *(Chairman and Chief Executive Officer)*	4/4	4/4	2/2
Cai Haifang	4/4	4/4	2/2
Ma Yilin (Appointed on 9 August 2018)	2/4	3/4	0/2
Independent non-executive Directors			
Cai Zirong	4/4	4/4	2/2
Wang Aiguo	4/4	4/4	2/2
Wu Shiming	4/4	4/4	2/2

Notice of regular Board meetings are served to all Directors at least 14 days before the meeting while reasonable notice is generally given for other Board meetings (if any).

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors in a timely manner, and at least 3 days before the intended date of each Board or committee meeting, except agreed otherwise among the members, to ensure that they had sufficient time to review the Board papers, and be adequately prepared for the meeting, to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to include any matter in the agenda and to make informed decisions.

The Board and each Director, upon reasonable request, have access to independent professional advice in appropriate circumstances to assist them in performing their duties to the Company, at the Company's expense. When needed and upon making request to the Board, Directors may obtain independent professional advice at the Company's expense in carrying out their duties.

Minutes of all Board meetings and the meetings of the Audit Committee and Remuneration Committee and Nomination Committee are kept by the Company Secretary. All of the above minutes record the matters considered and the discussions and decisions reached by the relevant members in sufficient detail, including any concern raised by Directors or dissenting views expressed. Any Director may inspect the minutes at any reasonable time on reasonable notice.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Draft minutes are normally circulated to Directors or members of the relevant committee for comment within a reasonable time after each meeting and the final version is sent to all Directors or committee members for their record.

The Company has maintained appropriate insurance cover in respect of legal action against its Directors and officers arising out of corporate activities.

Chairman and Chief Executive

Code Provision A.2.1 stipulates that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. While Mr. Cai Chenyang is the chairman and the chief executive officer of the Company, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operation of the Board, which comprises experienced and high calibre individuals who meet regularly to discuss issues affecting the operation of the Company.

The core duties of the Chairman include:

- overseeing the development of the long-term strategies, objectives and policies for the Company;
- ensuring, with the assistance of the management, that the Directors receive adequate, accurate, clear, complete and reliable information in a timely manner and are properly briefed on issues arising at Board meetings;
- providing leadership for the Board;
- ensuring that the Board works effectively, performs its responsibilities, and discusses all key and appropriate issues in a timely manner, with good corporate governance practices and procedures;
- taking primary responsibility for ensuring that good corporate practices and procedures are in place;
- ensuring, with (where appropriate) delegation to Company Secretary or a designated Director, that the agenda for each Board meeting are drawn up and approving the same, taking into account matters proposed by other Directors;
- encouraging all Directors to fully and actively contribute to the Board's affairs and taking the lead to ensure that it acts in the best interests of the Company;
- encouraging all Directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensures that Board decisions fairly reflect the Board's consensus;
- promoting a culture of openness and debate by facilitating the effective contribution of Directors, in particular, non-executive Directors, and promoting the constructive relations between executive and non-executive Directors;
- holding meeting(s) at least annually with the independent non-executive Directors without the executive Directors present. The Board regarded such meeting as opinion exchange gathering whereby a broad range of strategic and performance matters were openly discussed;
- ensuring appropriate steps are taken to provide effective communication with the shareholders and that views of shareholders are communicated to the Board as a whole;

CORPORATE GOVERNANCE REPORT (CONTINUED)

- attending the annual general meeting of the Company and arranging for the chairman of the Audit, Remuneration and Nomination Committees (as appropriate) or in the absence of the chairman of such committees, another member of same committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting of the Company; and

- deciding whether a resolution at a general meeting of the Company relating purely to a procedural or administrative matter should be excluded from the requirement for voting by poll.

Appointments, re-election and removal of members of the Board

Under article 84 of the Company's article of association (the "Articles of Association"), at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation and every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every 3 years while those retiring Directors shall be eligible for re-election.

In accordance with the said provision of the Articles of Association and the Code Provision A.4.1, at the last annual general meeting of the Company ("AGM") held on 27 June 2018, Mr. Cai Chenyang and Mr. Wu Shiming retired from office by rotation pursuant to Articles 84 and offered themselves for re-election. At that AGM, Mr. Wu Shiming was re-elected to hold office until the conclusion of the annual general meeting of the Company of 2021, whereas there was no specific term for Mr. Cai Chenyang.

Independent Non-executive Directors

Pursuant to Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each independent non-executive Director of his independence to the Company. The Company has assessed the independence and considers all of the independent non-executive Directors to be independent based on the independence criteria in accordance with the requirements in Listing Rules, their non-involvement in the daily operation and management of the Group and the absence of any relationships which will interfere with the exercise of their independent judgment.

The Company confirms that year of service of all independent non-executive Directors is less than 9 years.

Under the Code Provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election.

The terms of appointment for the independent non-executive Directors are as follows:

Name of independent non-executive Director	Terms of Appointment
Cai Zirong	a term of 3 years until the conclusion of the annual general meeting of the Company in 2020
Wang Aiguo	a term of 3 years until the conclusion of the annual general meeting of the Company of 2019
Wu Shiming	a term of 3 years until the conclusion of the annual general meeting of the Company in 2021

CORPORATE GOVERNANCE REPORT (CONTINUED)

Nomination of Directors

The Board has established the Nomination Committee to provide a framework and set the standards for the appointment of high quality Directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of Director(s).

Details of the Nomination Committee are set out in the sub-section headed "Nomination Committee" below.

Responsibilities of Directors

Mr. Cai Chenyang works closely with the newly appointed Directors (if any) both immediately before and after his/her appointment to acquaint the newly appointed Directors with the duties and responsibilities as a Director and the business operation of the Company.

A package compiled and reviewed by the Company's legal advisors setting out such duties and responsibilities under the Listing Rules, Hong Kong Companies Ordinance and other related law and relevant regulatory requirements of Hong Kong is provided to each newly appointed Director. The package also includes information relating to the operations and business of the Group. The Directors are updated with the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors from time to time. Readings regarding corporate governance for Directors have been forwarded to each Director for his/her information and ready reference.

The Board views that the independent non-executive Directors are well-aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgment at the Board meetings, taking the lead where potential conflicts of interest arise, scrutinizing the Company's performance and providing constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Audit Committees, Remuneration Committees and Nomination Committees.

The Directors have disclosed to the Company at the time of their appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. They have also informed the Company of the identity of other public companies or organisations they serve and the time involved in these public companies or organisations.

All Directors have devoted their time and attention to the affairs of the Company with their hands-on knowledge and expertise in the areas and operation in which he/she is charged with. The contribution made by the Directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the Directors with reference to his/her necessary knowledge and expertise. The satisfactory attendance of Board meetings, general meeting(s) of the Company and Board Committees meetings indicates the constant participation of all Directors, including executive and independent non-executive Directors and ensures the better understanding of the views of shareholders by all Directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

To fulfil their duties properly, where they consider it as necessary to obtain additional information other than that is provided by the management, the Directors made inquiries during the Board meetings and Board Committees meetings. The queries raised by Directors have received a prompt and full response.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Induction and Continuous Professional Development

The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the period from 1 January 2018 to 31 December 2018:

Directors	Read materials	Attend seminars/ briefings
Executive Directors		
Cai Chenyang	✓	✓
Cai Haifang	✓	✓
Ma Yilin	✓	✓
Independent Non-executive Directors		
Cai Zirong	✓	✓
Wang Aiguo	✓	✓
Wu Shiming	✓	✓

Securities Transactions Guidelines

The Board has adopted a code of conduct regarding directors' securities transaction on the same terms as the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all Directors and they have confirmed that throughout the year ended 31 December 2018, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The Directors' interests in shares of the Company as at 31 December 2018 are set out on pages 47 to 49 of this annual report.

The Board has also established written guidelines on no less exacting terms than the Model Code for the relevant employee, including any employee or a director or employee of a subsidiary or holding company of the Company who, because of his office or employment, is likely to possess inside information in relation to the Company or its securities, in respect of their dealings in the Company's securities.

DELEGATION BY THE BOARD

Management Functions

The Board delegates its powers and authorities from time to time to the Board Committees in order to ensure the operational efficiency and that specific issues are being handled by relevant expertise. All Board Committees are provided with accurate and sufficient information in timely manner so as to enable the Board Committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The functions reserved to the Board and those delegated to the management have been formalised. On 22 June 2012, the Board has adopted a set of consolidated memorandum of duties setting out its delegation policy. The Board has reviewed the said memorandum on periodically basis to ensure that it remains appropriate. The policy for segregation of duties and responsibilities between the Board and the management has been clearly defined and provided in the said memorandum as internal guidelines of the company.

The types of decisions which are to be taken by the Board include those relating to (among others):

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Company as a whole;
- business plan, budgets and publication of announcements;
- delegation to the chairman, and delegation to and by Board Committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of Directors and senior management;
- communication with key stakeholders, including shareholders and regulatory bodies; and
- corporate governance policy and duties.

The Board adheres to following principles when it delegates authority to the management:

- Delegation is on an “as needed” basis;
- Authority is delegated to positions rather than individuals;
- Delegated authority is in proportion with assigned responsibility;
- Delegated authority is related to the delegate’s existing area of responsibility;
- No employee shall approve his own expenditure;
- An authority may only be changed, or an exception granted to it, by the original delegator;
- The extent of delegation by the Board to a Board committee, executive Directors, or management should not significantly hinder or reduce the ability of the Board as a whole to perform its functions;
- When the Board delegates aspects of its management and administrative functions to management, it must at the same time give clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company; and

- Delegating their functions does not absolve Directors from their responsibilities or from applying the required levels of skill, care and diligence.

The types of decisions that the Board has delegated to the management include:

- approving assessing and monitoring the performance of all business units and ensuring that all necessary corrective actions have been taken;
- approving expenses up to a certain limit;
- approving the nomination and appointment of personnels other than the members of the Board, senior management and auditors;
- approving press release concerning matters decided by the Board;
- approving any matters related to routine matters or day-to-day operation of the Group (including the entering into of any transaction not requiring disclosure under the Listing Rules and cessation of non-material part of the Group's business); and
- carrying out any other duties as the Board may delegate from time to time.

Directors clearly understand the above delegation arrangements of the Company. The Company has formal letters of appointment/service contracts for Directors setting out the key terms and conditions of their appointment.

Board Committees

In 2018, the Board had 3 Board Committees, which are the Remuneration Committee, the Audit Committee and the Nomination Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

Attendance of the relevant members of the Board Committee at the meetings of the Board Committees in 2018 is as follows:

Independent non-executive Directors	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
Cai Zirong	2/2	2/2	2/2
Wang Aiguo	2/2	2/2	2/2
Wu Shiming	2/2	2/2	2/2

Nomination Committee

The Nomination Committee was established on 22 June 2012. All of the members are independent non-executive Directors. This Committee is chaired by Mr. Wang Aiguo with Mr. Cai Zirong and Mr. Wu Shiming as members. The Committee held 2 meetings during 2018.

The Nomination Committee is governed by its terms of reference revised on 28 August 2013, which are closely aligned with the relevant Code Provisions requirements and are available at both the Company's website *www.putian.com.hk* and HKEx's website *www.hkex.com.hk*.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The main duties of the Nomination Committee include the following:

- to review and supervise the structure, size and diversity (including but not limited to gender, age, cultural and educational background, professional experience, the skills, knowledge, experience and length of service) of the Board at least annually and to make recommendation to the Board regarding any proposed changes to implement the Company's' corporate strategy;

- with due regard for the benefits of diversity on the Board, to identify qualified individuals to become members of the Board and to select or to make recommendations to the Board on the selection of individuals nominated for directorships;

- to assess the independence of the independent non-executive Directors;

- to make recommendations to the Board on the appointment, re-appointment and succession planning of Directors, in particular the chairman of the Board and the chief executive, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, together with the Board, as appropriate;

- to review the Board Diversity Policy (as summarised hereinafter), as appropriate; and review the measurable objectives that the Board has set for implementing the Board Diversity Policy, and the progress on achieving the objectives; and to make disclosure of its review results in the Corporate Governance Report annually;

- to review the time required from a Director to perform his responsibilities;

- to do any such things to enable the Nomination Committee to discharge its powers and functions conferred on it by the Board; and

- to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the Company's constitution or imposed by legislation.

The work performed by the Committee during 2018 included (among others):

- reviewing policy for nomination of Directors;

- reviewing the current Board structure, diversity and composition;

- assessing the independence of all independent non-executive Directors;

- reviewing the contribution required from a Director to perform his/her responsibilities and whether he/she has spent sufficient time performing them; and

- reviewing the training and continuous professional development of Directors.

The Nomination Committee adopted the following procedure and criteria for nomination of directors:

In relation to the nomination procedure:

1. When the Board considers it necessary to appoint a new director, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive Director).

CORPORATE GOVERNANCE REPORT (CONTINUED)

2. Prepare a description of the role and capabilities required for the particular vacancy.

3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.

4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of Directors. One or more members of the Board will attend the interview.

5. Conduct verification of information provided by the candidate.

6. Make recommendations to the Board on the appointment or re-appointment of directors.

In relation to the nomination criteria:

1. Common Criteria for All Directors:

    (a) Character and integrity

    (b) The willingness to assume broad fiduciary responsibility

    (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs

    (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the company

    (e) Significant business or public experience relevant and beneficial to the Board and the company

    (f) Breadth of knowledge about issues affecting the company

    (g) Ability to objectively analyse complex business problems and exercise sound business judgment

    (h) Ability and willingness to contribute special competencies to Board activities

    (i) Fit with the company's culture

2. Criteria Applicable to non-executive Directors/independent non-executive Directors:

    (a) Willingness and ability to make a sufficient time commitment to the affairs of the company in order to effectively perform the duties of a Director, including attendance at and active participation in Board and committee meetings

    (b) Accomplishments of the candidate in his/her field

    (c) Outstanding professional and personal reputation

    (d) The candidate's ability to meet the independence criteria for Directors established in the Listing Rules

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Diversity Policy

The Company has adopted a board diversity policy ("Board Diversity Policy") since 28 August 2013 which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

Under the Board Diversity Policy, in designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

The Board has set measurable objectives (including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service) to implement the Board Diversity Policy and review such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee considers that the current composition of the Board is characterised by diversity after taking into account its own business model and specific needs, whether considered in terms of educational and professional background, experience and skills.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Cai Zirong (independent non-executive Director). It now consists of 3 members, including Mr. Wang Aiguo and Mr. Wu Shiming, all of whom are independent non-executive Directors.

The Remuneration Committee is governed by its terms of reference, which were adopted by the Board on 22 June 2012. The terms of reference are made available on the Company's website *www.putian.com.hk* and HKEx's website *www.hkex.com.hk*.

The Remuneration Committee was established on 22 June 2012 pursuant to Rule 3.25 of the Listing Rules. It meets from time to time to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee also reviews and approves the performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time, and determines, with delegated responsibility, the remuneration packages of individual executive Directors and senior management.

During 2018, the Remuneration Committee accomplished the following (among others):

- reviewing the emolument policy and structure and the levels of remuneration paid to the Directors and senior management of the Group;

- assessing the performance of executive Directors;

- approving the terms of executive Directors' service contracts;

CORPORATE GOVERNANCE REPORT (CONTINUED)

- determining the remuneration packages of all the executive Directors and senior management (including salaries, bonuses, benefits in kind, the terms on which they participate in any share or other incentive scheme and any provident fund or other retirement benefit scheme and compensation payments (including any compensation payable for loss or termination of their office or appointment)) taking into consideration salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

- reviewing the compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with relevant contractual terms and is otherwise fair and not excessive;

- discussing and approving the final bonus plan for the year of 2017; and

- reviewing new framework for determining the remuneration package in the coming year

The Human Resource Department provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

Emolument Policy and Long-Term Incentive Plan

Long-term incentive plan primarily consists of shares options to subscribe for the shares of the Company. The emoluments payable to the Directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The remuneration package of executive Directors is designed so that a proportion is structured to link rewards to corporate and individual performance, and gives incentives to executives to perform at the highest levels. Through job evaluation and job matching, the Group ensures the pay is internally equitable. Besides, the Group ensures external competitiveness of the pay through reference to market survey and data.

The independent non-executive Directors' compensation relates to the time commitment and responsibilities. They receive fees which comprise Directors' fee, which is usually paid annually.

The fees and any other reimbursement or emolument payable to the Directors and senior management by band are set out in Note 11 and Note 12 to the financial statements.

Audit Committee

The Audit Committee currently comprises 3 members, namely Mr. Wu Shiming, Mr. Cai Zirong, and Mr. Wang Aiguo, all of whom are independent non-executive Directors. Mr. Wu Shiming is the chairman of the Audit Committee. Mr. Wu Shiming is a qualified intermediate accountant and was awarded such qualification in December 2011 by the Ministry of Finance after having passed the national examination jointly organized by the Ministry of Finance and the Ministry of Personnel of the PRC and with profound financial expertise.

The Audit Committee usually meets 2 times a year to review the Company's interim and annual results and the integrity of the Group's financial statements. The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring that an effective and adequate system is in place for internal controls and risk management and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee is governed by its terms of reference revised on 28 August 2015. The terms of reference are made available on the Company's website *www.putian.com.hk* and HKEx's website *www.hkex.com.hk*.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Audit Committee meetings are normally attended by the Company's financial controller. When meetings concern the routine finance control, the head of the internal control department of the Company also attends the meeting to report on the problems identified during the internal control audits and recommendation of methods to alleviate and solve the problems identified. The external auditors are often present on discussion of the audit of financial results and audit planning.

The work performed by the Audit Committee during 2018 included consideration of the following matters (among others):

- the completeness and accuracy of the 2017 annual and 2018 interim financial statements;
- the Company's compliance with statutory and regulatory requirements; developments in accounting standards and the effect on the Company;
- review of the effectiveness of the risk management and the internal control systems of the Group;
- review of the adequacy of resources of the internal audit department and the effectiveness of the internal audit function;
- the internal control reports submitted by the internal audit department of the Company;
- the management letter prepared by the external auditors;
- the audit fees payable to external auditors, the scope and timetable of the audit for year 2018; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. HLB Hodgson Impey Cheng Limited as the external auditors, which the Board agreed and accepted.

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Committee is also supported by the staff of internal audit department and the external auditor.

The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting of the Company, Messrs. HLB Hodgson Impey Cheng Limited be re-appointed as the Company's external auditor for 2019.

ACCOUNTABILITY AND AUDIT

As at 31 December 2018, the Company had net assets of approximately RMB618,740,000, the Company recorded a loss attributable to equity holders of the parent of approximately RMB32,128,000 for the year ended 31 December 2018.

Financial Reporting

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Directors have acknowledged their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The statement by the external auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditors' Report" on pages 55 to 59.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the financial statements set out on pages 60 to 147 on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The bases on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the "Managerial Discussion and Analysis" set out in pages 8 to 18 in this annual report.

The Management provides the Board with sufficient explanation and information, such as the Group's major business activities and key financial information, to enable the Board to make an informed assessment of the financial information and other information of the Company put before the Board for approval.

The Management also provides all Directors with monthly updates giving them a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

Risk Management and Internal Controls

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives. The Directors acknowledge their responsibility for the risk management and internal controls systems of the Company and reviewing their effectiveness. The Board oversees the risk management and internal control systems on an ongoing basis and conducts a review of the effectiveness of the Group's risk management and internal control systems at least annually. During the year under review, in the audit committee meeting and Board meeting held in March 2018, the Directors, through the Audit Committee, have reviewed the effectiveness of the Group's risk management and internal control systems which covers review on all material controls including financial, operational and compliance controls, the effectiveness of internal audit functions and other duties under the Code for the financial year ended 31 December 2018, so as to ensure the adequacy of resources and effectiveness of the internal audit function, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions, and the Board considers such systems are effective and adequate. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has adopted a set of internal control policies and procedures to safeguard the Group's assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations.

Certain executive Directors and senior management have been delegated with respective level of authorities and have specific responsibility for monitoring the performance of business operating units, identifying the operation risk of the Group and reporting to the Audit Committee any significant risks identified.

The Company has an internal audit function. The Company's internal audit department identifies the risks of the Group, and independently reviewed the effectiveness of the internal control and risk management systems, including financial, operational and compliance, in the key activities of the Company's business. The head of the Company's internal audit department reports to the Audit Committee, and submits regular reports for its review in accordance with the approved review and audit mechanisms. The department submits a detailed report at least once a year to the Board for its review and monitors the risks identified and the effectiveness of the systems of internal control and risk management of the Group.

CORPORATE GOVERNANCE REPORT (CONTINUED)

External auditors will also report on the weakness in the Group's internal control and accounting procedure (if any) which have come to their attention during the course of audit. For the year of 2018, no critical internal control issues have been identified.

Each year, the Audit Committee reviews the findings made by the external auditors in respect of issues encountered by it in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee also reviews the internal control report regarding the risks of the Group and the internal control and risk management systems submitted by the Company's internal audit department. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues including but not limited to material internal control defects. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration.

Regarding the handling and dissemination of inside information, to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures and the preservation of confidential information, certain measures have been taken from time to time, which include:

1. the access of inside information is restricted to a limited number of employees on a need-to-know basis, who are fully aware of their obligations to preserve confidentiality; and

2. the executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Connected Transactions

The Company is committed to ensuring compliance with regulatory requirements under the Listing Rules, applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to identify and monitor connected transactions to ensure that connected transactions are conducted under normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by the independent shareholders in accordance with Listing Rules.

Auditor's Remuneration

For the year under review, the remuneration paid for services provided by the auditors is roughly as follows:

Audit services	RMB1 million
Non-audit services (which include taxation compliance and agreed upon procedures)	RMB10,000

COMPANY SECRETARY

The position of Company Secretary is held by Mr. Ku Kin Shing, Ignatius, a member of the Hong Kong Institute of Certified Public Accountant, who is an employee of the Company. The Company Secretary is responsible to the Board and reports to the Board chairman/chief executive from time to time. All Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable laws, rules and regulations are followed.

Mr. Ku Kin Shing, Ignatius was appointed in May 2011. He has to take no less than 15 hours of relevant professional training during the year 2018. He has fulfiled the requirement during the year under review.

CORPORATE GOVERNANCE REPORT (CONTINUED)

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company endeavours to uphold a high level of corporate transparency. Keeping shareholders, investors, analysts, bankers and other stakeholders informed of our corporate strategies and business operations has been one of the key objectives of our investor relations team.

Key Investor Events in 2018

Date	Events
25 January 2018	Meeting with fund managers
26 January 2018	Meeting with fund managers
2 March 2018	Meeting with fund managers
13 July 2018	Meeting with investors
11 September 2018	Meeting with investor

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. The Company complied with the required notice periods for general meetings under the applicable laws, rules and regulations.

Also, at the AGM held on 27 June 2018, separate resolutions (if any) for each substantially separate issue were proposed (if there is any). At the extraordinary general meetings ("EGM") held on 5 October 2018, separate resolutions (if any) for each substantially separate issue were proposed (if there is any).

The Chairman of the Board and chairman of the Remuneration Committee, Nomination Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committees, were available to answer questions at the shareholders' meetings.

The representative(s) of the external auditor of the Company, Messrs. HLB Hodgson Impey Cheng Limited also attended the AGM held on 27 June 2018 to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

Voting by Poll

The Company expresses in each relevant corporate communication that the shareholders shall vote by poll so as to allow the shareholders to have one vote for every share of the Company held. The chairman of the general meetings of the Company would explain the voting procedure and answer any questions from the shareholders regarding voting in poll in the general meetings. The poll voting results of the general meetings of the Company were published on the websites of the Stock Exchange and the Company respectively on the same day after the general meetings were held.

Shareholders' Rights to Convene an Extraordinary General Meeting

Under Article 58 of the Articles of Association of the Company, any one or more shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company 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; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Communication with Shareholders and Procedures for Putting Forward Proposals at General Meetings

Based on the requirement of the Code, the Shareholders Communication Policy was formulated and adopted on 22 June 2012 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with shareholders. The effectiveness of shareholders communication under the Shareholders Communication Policy had been reviewed by the Board at the 28 March 2018 Board meeting during the year 2018.

All published information, including all the statutory announcements, press releases and event calendars, is promptly posted on the Group's website at *www.putian.com.hk*.

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. In addition to the general meetings, press conferences and analysts briefings are held subsequent to the interim and final results announcements in which the Directors and management are available to answer questions about the Group. Investors can also submit enquiries and proposal of the Board and the management to be put forward at shareholders' meetings by call to Mr. Cai Haifang at (852) 3582 4666, or via email to general@fjtianyicn.com, or directly by raising questions at the general meeting of the Company. The Company's dedicated investor relations team takes a proactive approach to communicate with existing and potential investors in a timely manner by making regular face-to-face meetings and conference calls with investors.

Constitutional Documents

There was no change to the Company's memorandum and articles of association during the year under review.

Conclusion

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency possible. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements, corporate presentation and press releases are available on the Company's website *http://www.putian.com.hk*. Enquiries and proposals to be put forward at shareholder meetings can also be sent to the Board or senior management by the methods set out in the section headed "Communication with Shareholders and Procedures for Putting Forward Proposals at General Meetings" above.

REPORT OF THE DIRECTORS

The Directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27 May 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are hog farming, hog slaughtering, sales of pork, sales of frozen pork and sales of commodity hogs. There were no significant changes in the nature of the Group's activities during the year.

RESULTS AND FINAL DIVIDEND

The Group's loss for the year ended 31 December 2018 and the state of affairs of the Company and the Group as at the said date are set out in the consolidated financial statements on pages 60 to 147.

The Board does not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 148 of this report.

CLOSURE OF REGISTER OF MEMBERS

The Hong Kong branch share register of members will be closed from Monday, 24 June 2019 to Friday, 28 June 2019, both days inclusive, on which no transfer of shares will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Friday, 28 June 2019, all share transfer documents accompanied by the relevant share certificates must be lodged not later than 4:30 p.m. on Friday, 21 June 2019 with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons thereof, are set out in Note 33 to the consolidated financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme, the details of which are disclosed below and Note 31 to the consolidated financial statements, the subscription agreements, instruments and other documents in relation to the Convertible Bond due 2018 issued by the Company (details of which are disclosed in Note 30 to the consolidated financial statements and the section headed "Management Discussion and Analysis"), no equity-linked agreement was entered into by the Company during 2018 or subsisted at the end of 2018.

SHARE OPTION SCHEME

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

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

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

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

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

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

As at 31 December 2018, the number of shares available for issue under the Share Option Scheme were 99,980,000, representing 5.3% of the number of issued shares of the Company.

REPORT OF THE DIRECTORS (CONTINUED)

The terms, conditions and number of the grant are as follows:

Grantee	Grant day	Exercisable period	Exercisable price per shares (HK$)	Balance as at 31 December 2017 and 1 January 2018 ('000)	Lapsed during the year ('000)	Exercised during the year ('000)	Cancelled during the year ('000)	Balance as at 31 December 2018 ('000)
Executive Directors								
— Mr. Cai Chenyang	31/3/2015	(1) 31 Dec 2015 to 30 Mar 2025	0.595	21,000	—	—	—	21,000
	31/3/2015	(2) 31 Dec 2016 to 30 Mar 2025	0.595	24,960	—	—	—	24,960
	31/3/2015	(3) 31 Dec 2017 to 30 Mar 2025	0.595	26,480	—	—	—	26,480
— Mr. Cai Haifang	31/3/2015	(1) 31 Dec 2015 to 30 Mar 2025	0.595	1,220	—	—	—	1,220
	31/3/2015	(2) 31 Dec 2016 to 30 Mar 2025	0.595	1,600	—	—	—	1,600
	31/3/2015	(3) 31 Dec 2017 to 30 Mar 2025	0.595	1,600	—	—	—	1,600
Employees of the Group	31/3/2015	(1) 31 Dec 2015 to 30 Mar 2025	0.595	6,840	(1,820)	—	—	5,020
	31/3/2015	(2) 31 Dec 2016 to 30 Mar 2025	0.595	11,260	(2,700)	—	—	8,560
	31/3/2015	(3) 31 Dec 2017 to 30 Mar 2025	0.595	12,540	(3,000)	—	—	9,540
				107,500	**(7,520)**	**—**	**—**	**99,980**

PRE-EMPTIVE RIGHTS

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

RESERVES

The Company did not have any reserves available for distribution to the Shareholders as at 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the percentage of revenue from sales of goods attributable to the largest customer is 14.3%; and the percentage of revenue from sales of goods attributable to the 5 largest customers combined is 42.9%. For the year ended 31 December 2018, the largest and five largest suppliers of the Group accounted for approximately 12.4% and approximately 43.2% of the Group's total purchases respectively.

None of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers during the year ended 31 December 2018.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS AND RE-ELECTION OF DIRECTORS

The Directors of the Company during the year of 2018 and up to the date of this report were:

Executive Directors:

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

Independent non-executive Directors:

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

In accordance with Articles 83 and 84 of the Articles of Association of the Company, Ms. Ma Yilin and Mr. Wang Aiguo shall re-elect and retire from office by rotation at the conclusion of the forthcoming annual general meeting of the Company and they, being eligible, will offer themselves for re-election thereat, respectively.

DIRECTORS' AND COMPANY SECRETARY'S BIOGRAPHIES

Biographical details of the Directors of the Company and the company secretary of the Company are set out on pages 19 to 22 of this report.

DIRECTORS' SERVICE CONTRACTS

Each of service contracts or appointment letters (as the case may be) of the executive directors of the Company namely, Mr. Cai Chenyang, Mr. Cai Haifang and Ms. Ma Yilin is subject to termination by either the executive director or the Company giving not less than three months' written notice. Also, each of the service contracts or appointment letters (as the case may be) of the independent non-executive directors of the Company namely, Mr. Cai Zirong, Mr. Wang Aiguo and Mr. Wu Shiming is appointed with specific term and subject to termination by either the independent non-executive director or the Company giving not less than three months' written notice.

No director proposed for re-election at the forthcoming annual general meeting of the Company has a service contract or appointment letter with the Company which is not determined by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in this annual report, no Director and no entity connected with a director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' REMUNERATION

For the year ended 31 December 2018, the shareholders of the Company authorised the Board to fix the Directors' remuneration. Emoluments of executive Directors and company secretary are determined by the remuneration committee with reference to market conditions, time commitment, responsibilities and performance and the results of the Group.

SHARE CHARGE BY THE CONTROLLING SHAREHOLDER

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

COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

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

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2018, the interests and short positions of the directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") as recorded in the register of interest required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code") were as follows:

Long position in the shares and underlying shares of the Company

Name	Nature of interest	Number of ordinary shares and underlying shares of the Company held	Approximate percentage of the issued share capital of the Company
Mr. Cai Chenyang (Note 1)	Interest of controlled corporation and beneficial owner	1,078,440,000	57.09%
Mr. Cai Haifang (Note 2)	Beneficial owner	4,420,000	0.23%

Notes:

(1) Among the 1,078,440,000 shares/underlying shares held, Mr. Cai Chenyang was deemed to be interested in 1,006,000,000 shares of the Company, which were held by Zhan Rui Investments Limited ("Zhan Rui"), a corporation controlled by Mr. Cai Chenyang, while he held derivative interest in 72,440,000 underlying shares as beneficial owner pursuant to unlisted physically settled equity derivatives.

(2) Mr. Cai Haifang held derivative interest in 4,420,000 underlying shares in the Company as beneficial owner pursuant to unlisted physically settled equity derivative.

Short position in the shares and underlying shares of the Company

Name	Nature of interest	Number of shares/ underlying shares of the Company held	Approximate percentage of the issued share capital of the Company
Mr. Cai Chenyang (Note 1)	Interest of controlled corporation	1,078,440,000	57.09%

Note:

(1) Mr. Cai Chenyang, through Zhan Rui, a corporation controlled by him, was deemed to have a short position of 1,006,000,000 shares of the Company which has been charged to Vandi Investments Limited and Mr. Cai Chenyang also had a short position of 72,440,000 underlying shares of the Company, which is a short position over unlisted physically settled equity derivatives.

REPORT OF THE DIRECTORS (CONTINUED)

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

Substantial Shareholder's and Other Personal Interest in Shares

As at 31 December 2018, the interest and short position of the persons (other than the directors or chief executive of the Company) in shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO were as follows:

Long position in the shares and underlying shares of the Company

Name	Nature of interests	Number of ordinary shares/underlying shares of the Company held	Approximate percentage of the issued share capital of the Company
Zhan Rui (Note 1)	Beneficial owner	1,078,440,000	57.09%
Sze Ching Lau	Beneficial owner	100,476,000	5.32%
BCAGI	Beneficial owner	99,000,000	5.24%
China Construction Bank Corporation (Note 2)	Interest of controlled corporation/ security interest in shares	1,136,000,000	60.14%
Central Huijin Investment Ltd. (Note 3)	Interest of controlled corporation/ security interest in shares	1,136,000,000	60.14%

Notes:

(1) Zhan Rui held 1,006,000,000 shares in the Company. Zhan Rui was also interested in 72,440,000 underlying shares of the Company pursuant to its interests in unlisted physically settled equity derivatives.

(2) Such long position includes (a) security interests in 816,000,000 shares of the Company and (b) derivative interests in 320,000,000 underlying shares of the Company held by Vandi Investments Limited (a corporation 100% indirectly controlled by China Construction Bank Corporation) pursuant to unlisted physically settled equity derivatives.

(3) Such long position includes (a) security interests in 816,000,000 shares of the Company and (b) derivative interests in 320,000,000 underlying shares of the Company held by Vandi Investments Limited (a corporation 100% indirectly controlled by China Construction Bank Corporation, of which Central Huijin Investment Ltd. has 57.31% control) pursuant to unlisted physically settled equity derivatives.

REPORT OF THE DIRECTORS (CONTINUED)

Short position in the shares and underlying shares of the Company

Name	Nature of interests	Number of ordinary shares/underlying shares of the Company held	Approximate percentage of the issued share capital of the Company
Zhan Rui (Note 1)	Beneficial owner	1,078,440,000	57.09%

Note:

(1) Zhan Rui was deemed to have a short position of 1,006,000,000 shares of the Company held by Zhan Rui and charged to Vandi Investments Limited. Zhan Rui also had a short position of 72,440,000 underlying shares of the Company, which is a short position over unlisted physically settled equity derivatives.

Save as disclosed above, as at 31 December 2018, no person (other than the directors or chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company which would be required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

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

Name	Nature of interest	Number of shares	Approximate percentage of the issued share of the associated corporation
Mr. Cai Chenyang (Note 1)	Beneficial owner	1,000	100%

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as those disclosed in the paragraph "Share Option Scheme" in this section and in Note 31 to the consolidated financial statements, Mr. Cai Chenyang, through Zhan Rui, a corporation controlled by him, was entered into the subscription agreement on 30 July 2018 with the Company to subscribe for 190,000,000 shares, and completed the transaction on 15 October 2018; and Ms. Ma Yilin acquired 20,000,000 shares of the Company on 12 September 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the year and up to the date of this report.

REPORT OF THE DIRECTORS (CONTINUED)

CONNECTED TRANSACTION

There were no connected transactions and continuing connected transactions between the Group and its connected persons (as defined under the Listing Rules) which are subject to the annual reporting requirement under the Listing Rules for the Reporting Period.

The related party transactions in relation to the key management personnel remuneration as disclosed in Note 11, 12 and 40 to the consolidated financial statements in this annual report are connected transactions exempt from annual reporting, announcement and independent shareholders' approval requirements pursuant to the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

No Director of the Company is or was during 2018 engaged in or has or had during 2018 any interest in any business which is likely to compete directly or indirectly with that of the Group.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018.

MANAGEMENT CONTRACTS

No contract, other than service contracts with directors or full-time employees of the Company, by which a person undertakes the management and administration of the whole or any substantial part of any business of the Company was entered into or existed during 2018.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Company's articles of association, the directors of the Company for the time being acting in relation to any of the affairs of the Company and everyone of them 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 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 provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. Also, the Company has maintained appropriate director liability insurance in respect of legal actions against its Directors arising out of corporate activities. Such provisions were in force throughout the year under review and remained in force when this report was approved by the Board.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company had adopted the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules during the year. The Company has complied with all the code provisions of the Code during the year, save for the exception explained in the Corporate Governance Report in this report.

REPORT OF THE DIRECTORS (CONTINUED)

BUSINESS REVIEW

Details of the business review of the Company for the year ended 31 December 2018 are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report, and the following sections in this report.

DETAILS OF IMPORTANT EVENTS

The Board was not aware of any important event affecting the Group from the end of the year under review to the date of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Group and the measures to manage such risks are those set out below and in Note 4 and Note 38 to the consolidated financial statements.

Volatility of Commodity Prices

The results of the Group may be affected by price volatility of the main ingredients used in the production of animal feed, including corn, soya meal, wheat bran and feed premix. These raw materials are basic agricultural commodities and their prices are affected by global commodities prices as well as domestic demand and supply.

Further, prices of farm products also depend on the demand and supply as well as the economic condition and consumer purchasing power and confidence. When supply exceeds demand, there will be a negative impact on the selling price of the farm products of the Group and in turn on the performance of the Group.

Product Quality and Safety

Product quality and safety are the most important issues in agri-food business. The Group is committed to producing high quality and safe products from its manufacturing process. Failure to maintain quality control during the manufacturing process may lead to poor quality products and result in complaints, claims for compensation or product recalls, penalties and damage to the Group's reputation.

Animal Disease Outbreaks

Any epidemic outbreaks in livestock would affect the selling prices of our product and the results of the Group.

The Group has extensive measures in place to monitor and mitigate those risks, including but not limited to regular inspections, disease controls, surveys and insurance.

Interest Rate Fluctuation

The Group had total borrowings of approximately RMB280,594,000 as at 31 December 2018 and approximately 56.6% of the total borrowings were at floating rate which subjects the Group to interest rate risk.

REPORT OF THE DIRECTORS (CONTINUED)

Compliance Risks

The Group's businesses, principally operated in Mainland China, are primarily subjected to different industry standards and government regulations applicable in different provinces in Mainland China; as well as other industry standards and government regulations in other jurisdictions (if applicable). These standards and regulations included food hygiene and safety related laws and regulations, environmental protection regulations, employment regulations and relevant tax laws, etc.

The Group is subject to laws and regulations in the location in which it operates breeding of hogs. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to cultivating its staff's awareness of caring and protecting the environment. It conducts its business in a manner that balances the environment and economic needs.

The Group complies with all relevant environment regulations. The Group has taken several initiatives to protect the environment, including, among others, the following:

— Adopting an environmentally friendly waste management system. Instead of using the traditional waste management system which consumes a massive amount of water and produces a large amount of wastewater, the Group covers the floor of curtain-barns in the Group's hog farm with sawdust to absorb and mix with hog wastes so that after the hogs are removed from the curtain-barns, such mixture can be readily removed from the curtain-barns and subsequently be fermented to transforming into organic fertilisers; and

— Filtering the wastewater produced during the operation of the Group's slaughterhouse by the Group's on-site wastewater disposal system in order to reduce the level of pollutants to an acceptable level in accordance with the Standards of Wastewater & Pollutant Emission by Meat Processing Industry (GB13457-92) (《肉類加工工業水污染物排放標準》(國家標準GB13457-92)). The on-site wastewater disposal system is directly linked to the designated sewage network of the local government which centrally disposes wastewater, such that the wastewater treated and discharged from the Group's slaughterhouse would only have a minimal adverse effect on the surrounding environment.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group and its activities are subject to laws and regulations, including but not limited to:

— Law of Animal Epidemic Prevention of the PRC (中華人民共和國動物防疫法)

— Stock-breeding Law of the PRC (中華人民共和國畜牧法)

— Food Safety of the PRC (中華人民共和國食品安全法)

— Law of the Quality and Safety Agricultural Products of the PRC (中華人民共和國農產品質量安全法)

— Law of Prevention and Treatment of Water Pollution of the PRC (中華人民共和國水污染防治法)

— Environmental Protection Law of the PRC (中華人民共和國環境保護法)

REPORT OF THE DIRECTORS (CONTINUED)

The aforesaid laws and regulations are related to breeding of hogs and food safety, and thus affect hog farming and sales of pork, the principal activities of the Group.

During the year ended 31 December 2018, the Group has complied with the aforesaid laws and regulations, which have a significant impact on the Group.

Save as disclosed, the Company has complied with the Listing Rules during the year ended 31 December 2018.

RELATIONSHIPS WITH KEY STAKEHOLDERS

Relationship with our employees

The Group evaluates its employees or potential employees during recruitment, retention and promotion process irrespective of their races, genders, cultures or physical condition. The Group values its staff as its most important assets and resources as they help the Group to sustain its core values and culture. The Group offers on-job training and encourages its staff to attend external training courses to develop personal skills. As at 31 December 2018, the Group had 562 employees. The gender distribution of our employees is that approximately 59.4% were male and approximately 40.6% were female.

Relationship with our suppliers

The Group's suppliers include suppliers of raw materials for hog feeds and hogs (collectively "Raw Materials"), which are chosen based on their product quality, reliability of supply and product price. The Group has conducted inspections on the potential suppliers of Raw Materials and compiled a list of qualified suppliers which is reviewed and amended regularly. The purchase department of the Group will place orders to those suppliers that are on the list. Spot checks will be conducted by the Group on its suppliers on an on-going basis to monitor the quality of products supplied to us so as to ensure the high quality of the Group's product and protect the interest of our consumers.

The key suppliers are provided raw materials to the Group. We have developed business relationship with our key suppliers for a period ranging from approximately four years to eight years. The average credit period on purchases of certain goods is generally 60 days from the key suppliers.

Relationship with our customers

The Group believes that quality control is one of the most important factors to ensure high quality products for the customers and contributes to success of the Group's products so as to attract and retain customers of the Group. The Group sets stringent internal control policies for its production process to ensure that every step of its production process complies with the PRC laws and regulations and the quality of the products.

The key customers are purchased retail and wholesale of pork mainly from the Group. We have developed business relationship with our key customers for a period ranging from approximately one year to seven years. The Group normally allows a credit period ranging from cash upon delivery to generally within 60 days to 90 days depending on the customer's creditworthiness and the length of business relationship with the key customers.

REPORT OF THE DIRECTORS (CONTINUED)

AUDITORS

The financial statements for the year were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting of the Company. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Cai Chenyang
Chairman and Chief Executive Officer

Hong Kong, 28 March 2019

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF CHINA PUTIAN FOOD HOLDING LIMITED
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Putian Food Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 147, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 3 in the financial statements, which indicates that the Group incurred net loss of approximately RMB32,128,000 for the year ended 31 December 2018. In addition, as at 31 December 2018, the Group's convertible bonds and non-convertible notes of approximately RMB137,850,000 and RMB96,382,000 respectively were due on 15 October 2018. The extension of the maturity date of the Group's convertible bonds and non-convertible notes would be no more than six months from 15 October 2018. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined in the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Fair value of biological assets *Refer to Note 3 and 19 to the consolidated financial statements.*	
The Group's biological assets were carried at approximately RMB168,145,000 as at 31 December 2018 with a gain arising from change in fair value for the year ended 31 December 2018 recorded in the consolidated statement of profit or loss and other comprehensive income of approximately RMB8,990,000. The management of the Group engaged an independent external valuer to assess the fair value of the biological assets as at 31 December 2018. The biological assets were significant to the Group. Management's assessment of the fair value of biological assets involve significant judgements and estimates. The most significant assumptions and valuation parameters used in the valuation include the estimated quantities, weight, age and the related market prices of biological assets applied.	Our procedures in relation to the management's assessment of the fair value of biological assets included: • Evaluating of the independent external valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts; • Discussing with the independent external valuer and challenging the reasonableness of key assumptions and valuation parameters used in the valuation based on our knowledge of the business and industry; and • Checking, on sampling basis, the accuracy and relevance of the input data used. We found the fair value of the biological assets to be supported by the available evidence.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment *Refer to Note 3 and 15 to the consolidated financial statements.*	
The Group currently operates sales of pork operation in the People Republic of China. Due to the unfavourable business performance of the sales of pork operation, the management of the Group considered property, plant and equipment amount to approximately RMB571,644,000 were identified with impairment indicator. The Group assesses the recoverable amount of property, plant and equipment by reference to a discounted cash flow projections prepared by management of the Group. Significant judgements were involved in the preparation of discounted cash flow projections, including assumption of budgeted sales, budged gross margin and discounted rate.	Our procedure in relation to the management's impairment assessment of property, plant and equipment included: • Evaluating the Group's policies and procedure to identify impairment indicators; • Assessing the appropriateness of the methodology, key assumptions and estimates used in management's discount cash flow projections, based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions used based on our knowledge of the business and industry; and • Checking, on a sampling basis, the accuracy and relevance of the input data used. We found that the assumption made by management for impairment assessment were supported by the available information.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "Other Information").

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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 the 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.

AUDITORS' 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 auditors' 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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 auditors' 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 auditors' 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 auditors' 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 director on the audit resulting in this independent auditors' report is Ng Ka Wah.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Ng Ka Wah
Practising Certificate Number: P06417

Hong Kong, 28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	6	**517,257**	537,079
Cost of sales		**(462,521)**	(439,754)
Gross profit		**54,736**	97,325
Other income	7	**34,199**	3,289
Gain arising from change in fair value less costs to sell of biological assets	19	**8,990**	15,904
Selling and distribution expenses		**(34,327)**	(39,035)
Administrative expenses		**(44,423)**	(42,986)
Finance costs	8	**(53,542)**	(48,965)
Equity-settled share-based payment expense	31	**—**	(3,764)
Gain arising from fair value change of derivative financial liability	30	**2,239**	26,132
(Loss)/profit before taxation		**(32,128)**	7,900
Taxation	9	**—**	—
(Loss)/profit for the year	10	**(32,128)**	7,900
Other comprehensive (loss)/income for the year, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(14,080)**	17,719
Other comprehensive (loss)/income for the year, net of income tax		**(14,080)**	17,719
Total comprehensive (loss)/income for the year		**(46,208)**	25,619
(Loss)/profit for the year attributable to the owners of the Company		**(32,128)**	7,900
Total comprehensive (loss)/income for the year attributable to the owners of the Company		**(46,208)**	25,619
(Loss)/earnings per share			
Basic and diluted (RMB cents per share)	14	**(1.93)**	0.49

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	15	**571,644**	570,020
Prepaid lease payments	16	**76,629**	81,007
Biological assets	19	**18,883**	16,234
Deposits paid and prepayments for property, plant and equipment	20	**10,000**	12,553
		677,156	679,814
Current assets			
Inventories	18	**68,302**	103,761
Biological assets	19	**149,262**	116,733
Trade receivables	21	**100,574**	97,008
Deposits paid, prepayments and other receivables	22	**125,781**	74,512
Prepaid lease payments	16	**4,378**	4,378
Pledged bank deposits	23	**4,275**	4,290
Cash and bank balances	23	**9,091**	7,475
		461,663	408,157
Current liabilities			
Trade and bills payables	24	**18,031**	11,918
Accruals, deposits received and other payables	25	**18,174**	18,801
Borrowings	26	**275,094**	257,469
Convertible bonds	30	**137,850**	104,763
Derivative financial liability	30	**8,812**	10,584
Bank overdrafts	23	**—**	4,132
Deferred revenue	29	**253**	253
		458,214	407,920
Net current assets		**3,449**	237
Total assets less current liabilities		**680,605**	680,051

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Other payable	25	**24,509**	—
Borrowings	26	**5,500**	—
Obligation under finance lease	27	**24,293**	35,000
Amount due to a shareholder	28	**5,136**	12,261
Deferred revenue	29	**2,427**	2,680
		61,865	49,941
Net assets		**618,740**	630,110
Equity			
Share capital	33	**77,894**	65,178
Share premium and reserves		**540,846**	564,932
Total equity		**618,740**	630,110

Approved by the Board of Directors on 28 March 2019 and signed on its behalf by:

Cai Chenyang
Executive Director

Cai Haifang
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital RMB'000	Share premium* RMB'000	Exchange reserve* RMB'000 Note (a)	Statutory reserve* RMB'000 Note (b)	Share options reserve* RMB'000 Note (c)	Warrants reserve* RMB'000 Note (d)	Other reserve* RMB'000 Note (e)	Retained earnings* RMB'000	Total RMB'000
As at 1 January 2017	65,178	18,586	(18,650)	67,757	25,731	12,758	53,015	376,352	600,727
Profit for the year	–	–	–	–	–	–	–	7,900	7,900
Other comprehensive income for the year	–	–	17,719	–	–	–	–	–	17,719
Total comprehensive income for the year	–	–	17,719	–	–	–	–	7,900	25,619
Transfer to statutory reserve	–	–	–	3,749	–	–	–	(3,749)	–
Share-based payment expenses	–	–	–	–	3,764	–	–	–	3,764
Lapse of share option	–	–	–	–	(2,692)	–	–	2,692	–
Lapse of warrants	–	–	–	–	–	(12,758)	–	12,758	–
As at 1 January 2018, as previously reported	65,178	18,586	(931)	71,506	26,803	–	53,015	395,953	630,110
Effect on adoption of HKFRS 9 (Note 2 of Significant Accounting Policies)	–	–	–	–	–	–	–	(274)	(274)
As at 1 January 2018, as restated	65,178	18,586	(931)	71,506	26,803	–	53,015	395,679	629,836
Loss for the year	–	–	–	–	–	–	–	(32,128)	(32,128)
Other comprehensive loss for the year	–	–	(14,080)	–	–	–	–	–	(14,080)
Total comprehensive loss for the year	–	–	(14,080)	–	–	–	–	(32,128)	(46,208)
Transfer to statutory reserve	–	–	–	2,675	–	–	–	(2,675)	–
Issue of new shares	12,716	22,889	–	–	–	–	–	–	35,605
Issuing cost for new shares	–	(493)	–	–	–	–	–	–	(493)
Lapse of share option	–	–	–	–	(1,777)	–	–	1,777	–
As at 31 December 2018	**77,894**	**40,982**	**(15,011)**	**74,181**	**25,026**	**–**	**53,015**	**362,653**	**618,740**

* These reserve accounts comprise of the consolidated reserves of approximately RMB540,846,000 (2017: approximately RMB564,932,000) in the consolidated statements of financial position as at 31 December 2018.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2018

Notes:

(a) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the People's Republic of China (the "PRC").

(b) Statutory reserve

Subsidiaries of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior year's losses or to increase capital after proper approval.

(c) Share options reserve

The share options reserve represents the share options of the HK$45.4 million (equivalent to approximately RMB37.1 million), and release upon lapse of the options of the HK$14.2 million (equivalent to approximately RMB12.1 million) (Note 31).

(d) Warrants reserve

The warrants reserve represents the warrants of the HK$16 million (equivalent to approximately RMB12.6 million) (Note 32).

(e) Other reserve

Upon the completion of the reorganisation on 10 February 2012, the amount of approximately RMB53,015,000 represented the difference between the Company's share of nominal value of the paid-up capital of the subsidiaries acquired over the Company's cost of acquisition of the subsidiaries under common control upon the reorganisation as detailed in the prospectus of the Company dated 28 June 2012.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Operating activities			
(Loss)/profit before taxation		**(32,128)**	7,900
Adjustments for:			
Interest income	7	**(328)**	(343)
Finance costs	8	**53,542**	48,965
Amortisation of prepaid lease payments	10	**4,378**	4,378
Equity-settled share-based payment expense	10	**—**	3,764
Allowance for expected credit loss on accounts receivables	10	**2,491**	—
Gain arising from fair value change of derivative financial liabilities	30	**(2,239)**	(26,132)
Gain on bargain purchase	44	**—**	(188)
Gain on disposal of property, plant and equipment	7	**(20,743)**	—
Depreciation of property, plant and equipment	10	**27,238**	24,985
Gain arising from change in fair value less costs to sell of biological assets	19	**(8,990)**	(15,904)
Operating cash flows before movements in working capital		**23,221**	47,425
Decrease/(increase) in inventories		**35,483**	(42,319)
Increase in biological assets		**(26,188)**	(6,821)
(Increase)/decrease in trade receivables		**(6,331)**	7,939
(Increase)/decrease in deposits paid, prepayments and other receivables		**(23,214)**	8,639
Increase/(decrease) in trade and bills payables		**6,113**	(23,930)
Increase/(decrease) in accruals, deposits received and other payables		**23,790**	(7,949)
Net cash generated from/(used in) operating activities		**32,874**	(17,016)
Investing activities			
Interest received		**75**	90
Acquisition of a subsidiary	44	**—**	(17,742)
Proceeds from disposal of property, plant and equipment		**14**	—
Payments of property, plant and equipment		**(33,551)**	(28,210)
Net cash used in investing activities		**(33,462)**	(45,862)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Financing activities			
Proceeds from issuance of new shares		35,605	—
Issuing cost for new shares		(493)	—
Interest paid		(25,536)	(14,838)
Proceeds from borrowings		177,450	167,756
Repayments of borrowings		(160,950)	(150,000)
Proceeds from finance lease		—	35,000
Repayments of finance lease		(10,811)	—
Decrease in pledged bank deposits		15	4,215
(Decrease)/increase in amount due to shareholder		(7,482)	12,261
Net cash generated from financing activities		7,798	54,394
Net increase/(decrease) in cash and cash equivalents		7,210	(8,484)
Cash and cash equivalents at beginning of the year		3,343	8,675
Effect of foreign exchange rate changes		(1,462)	3,152
Cash and cash equivalents at the end of the year		9,091	3,343
Cash and cash equivalents at end of the year			
Cash and bank balances	23	9,091	7,475
Bank overdrafts	23	—	(4,132)
Cash and cash equivalents at the end of the year		9,091	3,343

The accompanying notes from an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The principal activity of the Company is investment holdings. The activities of its principal subsidiaries are set out in Note 17 to the consolidated financial statements and the Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 13 July 2012. The immediate and ultimate holding company is Zhan Rui Investments Limited, a company incorporated in British Virgin Islands.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (RMB'000) except otherwise indicated.

The consolidated financial statements have been prepared on the historical cost basis except for biological assets, which are measured at their fair values.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Application of new and revised HKFRSs — effective on 1st January 2018

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning from 1st January 2018. A summary of the new and revised HKFRSs applied by the Group is set out as follows:

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

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior periods and/or the disclosures set out in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Impact on the consolidated financial statements

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the application of new IFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below:

Consolidated statement of financial position (extract)	31 December 2017 RMB'000	HKFRS 9 RMB'000	1 January 2018 RMB'000
Current assets			
Trade receivables	97,008	(274)	96,734
Net current assets/(liabilities)	237	(274)	(37)
Total assets less current liabilities	680,051	(274)	679,777
Net assets	630,110	(274)	629,836
Capital and reserves			
Reserves	564,932	(274)	563,658
Total Equity	630,110	(274)	629,836

(b) *HKFRS 9 Financial instruments* — Impact of adoption

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1 January 2018. The difference between carrying amounts at 31 December 2017 and the carrying amounts at 1 January 2018 are recognised in the opening retained earnings, without restating comparative information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) *HKFRS 9 Financial instruments* — Impact of adoption (Continued)

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

(i) Classification and measurement

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39 's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial assets is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- Amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

- FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

- FVPL, if the investment does not meet the criteria for being measured at amortise cost or FVOCI (recycling). Changes in the fair value of the investment (including) interest are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

There is no impact on the Group's accounting for financial liabilities. The Group accounts for the accruals, deposits received and other payables, borrowings, convertible bonds and non-convertible notes at 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) *HKFRS 9 Financial instruments* — Impact of adoption (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

(ii) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, the remaining balances are grouped based on past due analysis. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including deposits paid and other receivables, pledged bank deposits, cash and cash balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology is as follow.

Loss allowances of trade receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables RMB'000
At 31 December 2017 — HKAS 39	—
Amounts re-measured through opening — retained earnings	(274)
At 1 January 2018 — HKFRS 9	(274)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(c) HKFRS 15 *Revenue from Contracts with Customers and the related amendments*

HKFRS 15 was generally adopted without restating any other comparative information. The adoption of HKFRS 15 in the current period does not result in any impact on the amounts reported in the consolidated financial information and/or disclosures set out in the consolidated financial information.

HKFRS 15 requires that revenue from contracts with customers be recognised upon the transfer of control over goods or services to the customer. As such, upon adoption, this requirement under HKFRS 15 resulted in immaterial impact to the financial statements as the timing of revenue recognition on sale of goods is nearly unchanged. Thus there was no impact on the Group's consolidated statement of financial position as of 1 January 2018.

New and revised HKFRSs that have been issued but are not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[3]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures[1]
HKFRS (Amendments)	Annual Improvements to HKFRSs 2015–2017 Cycle[1]
HKFRS 3 (Amendments)	Definition of a business[2]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1st January 2019.

2 Effective for business combination and asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January 2020.

3 Effective for annual periods beginning on or after 1st January 2020.

4 Effective for annual periods beginning on or after 1st January 2021.

5 Effective for annual periods beginning on or after a date to be determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

At 31 December 2018, the Group has non-cancellable operating lease commitments of approximately RMB18,403,000 as disclosed in note 41 to the consolidated financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

Except disclosed above, the directors of the Company do not anticipate that the application of other new and revised HKFRSs will have a material impact on the Group's financial performance and financial positions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs, HKASs and Interpretations issued by the HKICPA, and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for biological assets, which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of *HKFRS 2 Share-based Payment*, leasing transactions that are within the scope of *HKAS 17 Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in *HKAS 36 Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

There were no transfer between level 1, 2 and 3 in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Going Concern

The Group incurred net loss of approximately RMB32,128,000 for the year ended 31 December 2018 (2017: profit RMB7,900,000). In addition, as at 31 December 2018, the Group's convertible bonds and non-convertible notes of approximately RMB137,850,000 and RMB96,382,000 respectively were due on 15 October 2018. The extension of the maturity date of the Group's convertible bonds and non-convertible notes would be no more than six months from 15 October 2018. Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of the going concern basis is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements.

In the opinion of the Directors, the Group is able to maintain itself as a going concern in the coming year by taking into consideration that:

(i) The Group is taking measures to tighten cost control over various costs with an aim to attain profitable and positive cash flow operations;

(ii) The Group is in the process of negotiating with its bankers to secure necessary facilities to meet the Group's working capital and financial requirements in the near future;

(iii) The Directors are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limited to, seek new investment and business opportunities, private placements, open offers or rights issue of new shares of the Company; and

(iv) The substantial shareholder of the Company, Mr. Cai Chenyang is willing to provide financial support to the Group to enable the Group to continue as a going concern and to settle its liabilities as and when they fall due.

In light of the measures and arrangements as described above and with reference to a cash flow forecast in relation to the current business and financing plans of the Group, the Directors have concluded that the Group will have sufficient working capital to meet its financial obligations as and when they fall due. Accordingly, the Directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than at the amounts at which they are currently carried in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities. The effect of these adjustments has not been reflected in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the reporting period are included in the consolidated statement of profit or loss and other comprehensive income from the date of the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributable to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the noncontrolling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interest's proportionate interests. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interest (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specific/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with *HKAS 12 Income Taxes* and *HKAS 19 Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with *HKFRS 2 Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with *HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interests.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's CGUs (or group of CGUs) that is expected to benefit from the synergies of the combination.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU (or group of CGUs) is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU (or group of CGUs), the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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.

Revenue and other income

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and other income (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or services.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

Sales of goods

The Group sells pork products to the wholesale market through wholesalers and directly to customers through its own retail outlets and through internet sales.

For sales of pork products to the wholesale market, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location (delivery). Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 60 to 90 days upon delivery.

For sales of pork products to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retail outlet. Payment of the transaction price is due immediately at the point the customer purchases the goods.

For internet sales, revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location.

Interest 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). Interest income is presented as "interest income" where it is mainly earned from financial assets that are held for cash management purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (prior to 1st January 2018)

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated statement of profit or loss and other comprehensive income as follows:

(a) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(b) Interest income

Interest income from a financial asset (other than a financial asset at fair value through profit and loss ("FVTPL")) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

An unconditional government grant related to the processing of ill hogs shall be recognised in profit or loss when, and only when, the government grant becomes receivable.

Other government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognised the related costs for which the grants are intended to compensate as expenses. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Company's or the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expense in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the periods in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. Prepaid lease payments which are to be amortised in the next twelve months or less are classified as current assets. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Foreign currencies

The functional currency of the Company and its subsidiaries outside the PRC is Hong Kong dollars. The functional currency of the PRC subsidiary is RMB. The consolidated financial statements are presented in RMB which is the Group's presentation currency. This is also the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

In preparing the financial statements of each individual group entity, transactions in currencies other than that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the exchange rates prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Exchange differences on monetary items are recognised in profit or loss in the reporting period in which they arise except for:

- Exchange difference on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to noncontrolling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposal of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

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 employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. 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 the subsidiary in an independent fund managed by the PRC government.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from profit as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax (Continued)

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statements of financial position at cost, less accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets, other than construction in progress, less their residual values over their useful lives, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use and depreciates on the same basis as other property assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives, after taking into account of their residual value, on a straight-line basis at the following rates per annum:

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Office equipment	5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is computed using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense for the reporting period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense for the reporting period in which the reversal occurs.

Biological assets

Hogs, including breeder hogs and porkers, are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell, with a resultant gain or loss recognised in profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation cost and excluding finance costs and income taxes. The fair value of hogs is determined based on its present location and condition and is determined independently by professional valuer.

The feeding costs and other related costs including utilities cost and consumables incurred for raising of hogs are capitalised.

Prepaid lease payments

Prepaid lease payments represent the purchase costs of land use rights and are amortised on a straight-line basis over the reporting period of land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses.

Impairment losses of non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimated of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal and constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1st January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest and dividend income which are derived from the financial assets and shareholders' rights are presented as other revenue and other income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- The financial asset is held within a business model whose objective is to collect contractual cash flows; and

- The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near term; or

- On initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- It is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9) (Continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other revenue and other income" line item.

Impairment of financial assets (upon application of HKFRS 9 in accordance with transition in note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, deposit paid, other receivables, loan receivables, time deposits, loan to director and cash and bank balances). The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting period. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting period as well as the forecast of future conditions.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transition in note 2) (Continued)

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- Significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- An actual or expected significant deterioration in the operating results of the debtor;

- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transition in note 2) (Continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) Significant financial difficulty of the issuer or the borrower;

(b) A breach of contract, such as a default or past due event;

(c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) The disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 1 year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transition in note 2) (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified into available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market-place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the reporting period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, deposits paid and other receivables, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contracts, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the financial assets' original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment loss not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial assets in its entirety, the difference between the assets' carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial assets other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial assets between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at fair value through profit or loss ("FVTPL")

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible bond, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Financial liabilities at FVTPL are measured at fair value, with changes at fair value arising on remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at fair value through profit or loss ("FVTPL"), of which the interest expense is excluded in net gains or losses.

Derivative financial instruments

Derivative financial instruments (including derivative financial liability) is financial liabilities designated at FVTPL. Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on the remeasurement of fair value is recognised immediately in profit or loss.

Other financial liabilities

Financial liabilities (including trade and bills payables, accruals and other payables, borrowings, and convertible bonds) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Convertible bonds

(i) <u>Convertible bonds that contain an equity component</u>

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Convertible bonds (Continued)

(ii) Other convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

Share options granted to directors and employees

Equity-settled share-based payments to directors and employees and other providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equitysettled share-based transactions are set out in Note 31 to the Group's consolidation financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of revision of the original estimates, if any, is recognizeed in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

When share options are exercised, the amount previously recognized in share options reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will continue to be held in share options reserve will be transferred to accumulated profit.

Warrants

The net proceeds received from the issue of warrants are recognised in warrants reserve within equity. Net proceeds received for warrants issued with notes are determined based on their relative fair value at the issue date. When the warrants are exercised, the amount recognised in warrants reserve will be transferred to share capital and share premium accounts. When the warrants are still not exercised at the expiry date, the amount previously recognised in the warrants reserve will be transferred to accumulated profits.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties transactions

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

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Group and a related party, regardless of whether a price is charged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contingent liabilities and contingent assets

Contingent liabilities are possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. These liabilities can also be present obligation arising from past events that are not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the consolidated financial statements. When changes in the probability of outflows occur so that outflows are probable, they will then be recognised as a provision.

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when the inflows of economic benefits are probable. When inflows are virtually certain, assets are recognised.

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 steering committee that makes strategic decisions.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Impairment of property, plant and equipment

The Group reviews its property, plant and equipment for indications of impairment at each reporting period. In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(b) Depreciation and amortization

Items of property, plant and equipment are depreciated and amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods are adjusted if there are significant changes from previous estimates.

(c) Fair values of biological assets

The biological assets are valued at fair value less costs to sell. The fair value is determined based on either the market-determined prices as at the end of the reporting periods adjusted with reference to the species, age, growing condition and costs incurred to reflect differences in characteristic and/or stages of growth of biological assets. Any change in the estimates may affect the fair value of biological assets significantly.

The independent external valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of biological assets. Details of the assumptions used are disclosed in Notes 19 and 39.

(d) Net realisable value of inventories

Valuation of inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for raw materials and finished goods based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product by product basis at the end of each reporting period and assess the need for write down of inventories.

(e) Derivative financial liability

The directors use their judgment in selecting an appropriate valuation technique to determine the fair value of embedded conversion option of the convertible notes. Valuation techniques commonly used by market practitioners are applied. The fair values of convertible notes are determined by the Monte Carlo Simulation Model that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because the model requires the input of highly subjective assumptions, including the volatility, credit spread, etc., changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions used are disclosed in Notes 30 and 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(f) Impairment of financial assets

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 group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The loss allowance is sensitive to changes in assumptions. The information about the loss allowance and the Group's financial assets are disclosed in Note 38.

5. SEGMENT INFORMATION

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

During each of the Reporting Period, all revenue is derived from customers in the the People's Republic of China (the "PRC") and almost all the non-current assets of the Group are located in the PRC.

Segment revenue

For the year ended 31 December 2018, revenue from the sales of pork decreased to approximately RMB517,257,000 (2017: approximately RMB537,079,000).

Furthermore, revenue of approximately RMB74,092,000 (2017: approximately RMB48,937,000) arose from sales to the Group's largest customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

5. SEGMENT INFORMATION (Continued)

Information about the customers

Revenues from customers contributing over 10% of the total revenue of the Group for the year ended 31 December 2018 and 2017 are as follows:

	2018 RMB'000	2017 RMB'000
Customer A (Note)	**74,092**	Nil
Customer B (Note)	**70,908**	Nil

Note: Both customers contributed less than 10% of the Group's revenue for the year ended 31 December 2017.

Geographical Information

During the years ended 31 December 2018 and 2017, the Group mainly operated in the PRC and all of the Group's revenue was derived from the PRC, and most of non-current assets of the Group were located in the PRC as at 31 December 2018 and 2017. No analysis of the Group's result and assets by geographical area is disclosed.

6. REVENUE

Revenue represents the net invoiced value of goods sold, excludes value added tax or other sales tax. Disaggregation of revenue from contracts with customers by major products or service line is as follows:

	2018 RMB'000	2017 RMB'000
Recognition at a point of time		
— Retail of pork	**289,290**	311,734
— Wholesale of pork	**182,753**	200,349
— Retail of frozen pork	**38,507**	15,832
— Wholesale of commodity hogs	**6,707**	9,164
	517,257	537,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

7. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Interest income on:		
— bank deposits	75	90
— amortisation of deferred revenue	253	253
Total interest income	328	343
Gain on disposal of property, plant and equipment	20,743	—
Gain on disposal of hogs droppings	66	64
Consultancy fee income	2,419	—
Exchange gain, net	11	—
Gain on disposal of biological assets	5,678	1,145
Gain on bargain purchase (Note 44)	—	188
Government grants (Note)	4,193	1,386
Sundry income	761	163
	34,199	3,289

Note: Government grants include subsidies income received by a subsidiary of the Group which operates in the PRC in accordance with the subsidy policies of local government authorities and in relation to the construction of hog farms and slaughterhouse and government tax grant. Subsidies income received by a subsidiary of the Group is recognised in the consolidated statements of profit or loss and comprehensive income when received and no specific conditions are required. Those government grants on the construction of hogs farm and slaughterhouse are recognised as deferred revenue (Note 29) and the other government grants are recognised as other income, the government grants recognised during the year are non-recurring. There are no unfulfilled conditions or contingencies relating to these government grants.

8. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interests on:		
— Borrowings wholly repayable within five years	14,237	15,664
— Bank overdrafts wholly repayable within five years	72	141
— Other interest bearing payable wholly repayable within five years	2,974	—
— Imputed interest charged on convertible bonds (Note 30)	33,829	32,787
— Finance lease	2,430	373
	53,542	48,965

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

9. TAXATION

	2018 RMB'000	2017 RMB'000
Income tax expenses	–	–

The taxation for the year represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of the Group.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit before taxation, as follows:

	2018 RMB'000	2017 RMB'000
(Loss)/profit before taxation	(32,128)	7,900
Tax at the applicable income tax rate	4,682	4,234
Tax exemption of subsidiary operating in the PRC	(9,514)	(9,182)
Tax effect of expenses not deductible for tax purpose	6,938	7,683
Tax effect of income not taxable for tax purpose	3,967	4,355
Tax effect of tax loss not recognised	(6,073)	(7,090)
Income tax expenses	–	–

Note: The non-deductible expenses mainly consist of entertainment, which are not deductible for tax purpose under the relevant tax jurisdiction.

As at 31 December 2018 and 2017, no unutilised tax loss was approved by Hong Kong Inland Revenue Department. No deferred tax asset has been recognised in respect of tax losses due to the unpredictability of future profit streams.

Notes:

(a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI during the Reporting Period.

(b) For the year ended 31 December 2017, Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profits. On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 ("Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rate regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax during the year ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

9. TAXATION (Continued)

Notes: (Continued)

(c) Pursuant to the Enterprise Income Tax Law ("EIT LAW") of the PRC, the statutory tax rate of Enterprise Income Tax (the "EIT") for both domestic enterprises and foreign investment enterprises is 25%. Income derived by an enterprise from engaging in the raising of livestock and poultry shall be exempted from EIT.

Meat processing of primary produce is on the list of The Range of Processing of Primary Agricultural Produces to Be Given Preferential Enterprise Income Tax Treatment (Trial Implementation) (2008 version) (享受企業所得税優惠政策的農產品初加工範圍(試行)(2008年版)) promulgated by the Ministry of Finance (財政部) and the State Administration of Taxation (國家税務總局) on 20 November 2008. Tianyi (Fujian) Modern Agriculture Development Co.,Ltd and Putian (Beijing) Food Limited meet the required standard for preferential PRC EIT treatment. According to the prevailing tax rules and regulations, Tianyi (Fujian) Modern Agriculture Development Co., Ltd and Putian (Beijing) Food Limited operating in the business of primary processing of agricultural products was exempted from the PRC EIT during the years ended 31 December 2017 and 2018.

(d) According to the EIT LAW and implementation of the regulations issued by the State Council, income tax at the rate of 5% is applicable to any dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in China, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Tianyi (Fujian) Modern Agriculture Development Co., Ltd. and 莆田市鄉里香黑豬開發有限公司 (Putian Xianglixiang Black Pig Development Co., Ltd.*) are considered as "resident enterprise" by the Chinese government, and those are required to pay withholding tax on the dividend payable to the foreign shareholders and foreign shareholders also have to pay PRC income tax on gain on transfer of shares.

Since the Group can control the quantum and timing of distribution of profits of the Group's subsidiaries in the PRC, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

10. LOSS/PROFIT FOR THE YEAR

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

	2018 RMB'000	2017 RMB'000
Staff costs including directors' emoluments (Note 11)		
Salaries and other emoluments	**30,937**	38,423
Equity settled share-based payment expense	**—**	3,764
Retirement scheme contributions (Note 36)	**1,408**	1,760
Total staff costs	**32,345**	43,947
Depreciation of property, plant and equipment (Note 15)	**27,238**	24,985
Amortisation of prepaid lease payments (Note 16)	**4,378**	4,378
Total depreciation and amortisation	**31,616**	29,363
Auditors' remuneration		
— Audit services	**1,000**	1,000
— Non-audit services	**10**	8
Allowance for expected credit loss on trade receivables (Note 38(b))	**2,491**	—
Operating lease rental expenses	**6,251**	4,770

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

11. DIRECTOR' EMOLUMENTS

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

	2018 RMB'000	2017 RMB'000
Directors' fees	**928**	840
Other emoluments:		
Salaries, allowances and benefits in kind	**482**	329
Equity settled share-based payment expense	**—**	2,648
Retirement scheme contributions	**76**	39
	558	3,016
	1,486	3,856

Details for the emoluments of each director of the Company during the Reporting Period are as follows:

	Directors' fees RMB'000	**Salaries, allowances and benefits in kind** RMB'000	**Equity-settled share-based payment expense** RMB'000	**Retirement schemes contributions** RMB'000	**Total** RMB'000
2018					
Executive directors:					
Mr. Cai Chenyang (Note (a))	**422**	**403**	**—**	**59**	**884**
Mr. Cai Haifang	**253**	**79**	**—**	**17**	**349**
Ms. Ma Yilin (Note (b))	**100**	**—**	**—**	**—**	**100**
Independent non-executive directors:					
Mr. Cai Zirong	**51**	**—**	**—**	**—**	**51**
Mr. Wu Shiming	**51**	**—**	**—**	**—**	**51**
Mr. Wang Aiguo	**51**	**—**	**—**	**—**	**51**
	928	**482**	**—**	**76**	**1,486**
2017					
Executive directors:					
Mr. Cai Chenyang (Note (a))	429	247	2,497	25	3,198
Mr. Cai Haifang	258	82	151	14	505
Independent non-executive directors:					
Mr. Cai Zirong	51	—	—	—	51
Mr. Wu Shiming	51	—	—	—	51
Mr. Wang Aiguo	51	—	—	—	51
	840	329	2,648	39	3,856

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

11. DIRECTOR' EMOLUMENTS (Continued)

Notes:

(a) Mr. Cai Chenyang is the chief executive officer of the Company.

(b) Ms. Ma Yilin was appointed as the Company's executive director on 9 August 2018.

The executive directors' emoluments shown were mainly for their service in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown were mainly for their services as directors of the Company.

The remuneration on shown above represents remuneration received and receivable from the Group by these directors in their capacity as employees to the Group and/or in their capacity as directors of the Company during the years ended 31 December 2018 and 2017 respectively. None of the directors agreed to waive or waived any emoluments during the year (2017: Nil).

12. EMPLOYEES EMOLUMENTS

(a) Five Highest Paid Individual

The five highest paid individuals during the year included one director (2017: two) whose emolument were disclosed in Note 11. The detail of the aggregate emoluments of the remaining four (2017: three) highest paid individuals are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	1,992	1,776
Equity settled share-based payment expense	—	303
Retirement scheme contribution	301	483
	2,293	2,562

The emoluments of the four (2017: three) individuals with the highest emoluments are within the following band are as follows:

	2018	2017
Nil to RMB844,000 (equivalents Nil to HK$1,000,000)	4	2
RMB844,000 to RMB1,266,000 (equivalents to HK$1,000,000 to HK$1,500,000)	—	1

During the year ended 31 December 2018, no emoluments were paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any emoluments during the reporting period (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

12. EMPLOYEES EMOLUMENTS (Continued)

(b) Senior Management of the Company

The emoluments of the senior management other than five highest paid individuals of the Group are within the following band.

	2018	2017
Nil to RMB844,000 (equivalents Nil to HK$1,000,000)	3	2

13. DIVIDENDS

The directors of the company do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

14. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

(Loss)/earnings

	2018 RMB'000	2017 RMB'000
(Loss)/earnings attributable to owners of the Company for the purpose of calculating basic (loss)/earnings per share	(32,128)	7,900

Number of shares

	2018 '000	2017 '000
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	1,661,759	1,600,000

The calculation of basic loss per share for the year is based on the loss attributable to the owners of the Company for the year ended 31 December 2018 of approximately RMB32,128,000 (2017: earnings attributable to the owner of the Company of approximately RMB7,900,000) and the weighted average number of approximately 1,661,759,900 (2017: 1,600,000,000) ordinary shares in issue for the year ended 31 December 2018.

Basic and diluted earnings/(loss) per share for the years ended 31 December 2018 were the same because of no expectation for the exercise of the Company's outstanding share options as the exercise price of share options and warrants were higher than the average market price for the years ended 31 December 2018.

Basic and diluted earnings/(loss) per share for the year ended 31 December 2017 were the same because conversion of convertible bonds (which was issued on 13 October 2016) would increase the earnings per share for the years ended 31 December 2017, and therefore, be anti-dilutive. Also, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options and warrants (which were granted on 31 March 2015 and issued on 9 October 2015 respectively) as the exercise price of share options and warrants were higher than the average market price for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
As at 1 January 2017	318,496	38,302	11,611	5,439	272,010	645,858
Additions	4,728	38	3	1,045	22,562	28,376
Acquisition of a subsidiary (Note 44)	2,401	400	17	15	981	3,814
Transfer	40,666	8,080	—	—	(48,746)	—
Exchange alignment	—	—	(44)	(38)	—	(82)
As at 31 December 2017 and 1 January 2018	366,291	46,820	11,587	6,461	246,807	677,966
Additions	12,530	1,964	408	373	20,829	36,104
Disposal	—	—	—	(62)	(7,215)	(7,277)
Transfer	19,078	17,944	—	—	(37,022)	—
Exchange alignment	—	—	29	50	—	79
As at 31 December 2018	**397,899**	**66,728**	**12,024**	**6,822**	**223,399**	**706,872**
Accumulated depreciation						
As at 1 January 2017	57,998	11,185	8,645	5,179	—	83,007
Provided for the year	19,039	5,015	734	197	—	24,985
Exchange alignment	—	—	(44)	(2)	—	(46)
As at 31 December 2017 and 1 January 2018	77,037	16,200	9,335	5,374	—	107,946
Provided for the year	19,897	5,911	882	548	—	27,238
Disposal	—	—	—	(6)	—	(6)
Exchange alignment	—	—	28	22	—	50
As at 31 December 2018	**96,934**	**22,111**	**10,245**	**5,938**	**—**	**135,228**
Net carrying amounts						
As at 31 December 2018	**300,965**	**44,617**	**1,779**	**884**	**223,399**	**571,644**
As at 31 December 2017	289,254	30,620	2,252	1,087	246,807	570,020

Notes:

(a) For the additions of property, plant and equipment as at 31 December 2018, the amount included approximately RMB36,084,000 was settled by cash (2017: approximately RMB28,210,000) and approximately RMB20,000 was settled by deposit (2017: approximately RMB166,000).

(b) Certain property, plant and equipment with net book amount of approximately RMB85,316,000 as at 31 December 2018 (2017: approximately RMB94,849,000), are pledged as collaterals for the Group's bank borrowings and obligation under finance lease. Please refer to Note 43 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

16. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Cost		
As at the beginning of the year and at the end of the year	**110,679**	110,679
Accumulated depreciation		
As at the beginning of the year	**25,294**	20,916
Charge for the year	**4,378**	4,378
As at the end of the year	**29,672**	25,294
Net carrying amounts	**81,007**	85,385
Analysed for reporting purposes as:		
Current assets	**4,378**	4,378
Non-current assets	**76,629**	81,007
	81,007	85,385

Prepaid lease payments represent the cost of land use rights in respect of certain leasehold land located in the PRC, which is held under medium term leases. The lease terms are between 25 and 47 years.

The prepaid lease payments with net book amount of approximately RMB17,904,000 as at 31 December 2018 (2017: approximately RMB18,381,000), are pledged as collaterals for the Group's bank borrowings. Please refer to Note 43 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

17. PRINCIPAL SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Place and date of incorporation	Principal country of operation	Paid up capital or registered capital	Percentage of equity interest and voting power attributable to the Company Direct %	Indirect %	Principal activities
China Putian Investment Limited	The BVI, 13 November 2013	Hong Kong	USD 1	100	—	Investment holding
Wellname Investments Limited	The BVI, 13 January 2011	Hong Kong	USD1,000	100	—	Investment holding
China Modern Agriculture Holding Limited	Hong Kong, 13 August 2008	Hong Kong	HK$10,000	—	100	Investment holding
Tianyi (Fujian) Modern Agriculture Development Co., Ltd	The PRC, 26 April 2005 (Company Limited)	The PRC	USD115,000,000 (2017: USD42,000,000)	—	100	Slaughtering and processing of livestock, production and sales of meat products
Victoria Top Limited	Hong Kong, 23 February 2011	Hong Kong	HK$1	—	100	Dormant
China Putian Food Development Company Limited	Hong Kong, 3 December 2013	Hong Kong	HK$1	—	100	Retail and wholesale of pork product
Putian (Beijing) Food Limited*	The PRC, 14 April 2014 (Company Limited)	The PRC	RMB100,000,000	—	100	Wholesale pre-packaged food, organisation of exhibition events, technology development, and consultancy services
Fujian Putian Food Co. Limited*	The PRC, 9 October 2014 (Company Limited)	The PRC	RMB20,000,000	—	100	Production, processing and sale of frozen product; research and development on food production technology
Putian Hebei Farming Development Co. Limited*	The PRC, 9 September 2014 (Company Limited)	The PRC	RMB60,000,000	—	100	Farming of cereals and vegetables, breeding of Hogs management of and sales of Production and sales of agricultural products
Putian Xianglixiang Black Pig Development Co., Ltd.* (the "Putian Xianglixiang")	The PRC, 28 February 2005 (Company Limited)	The PRC	RMB28,000,000	—	100	Farming of hogs and sales of production and sales of agricultural products
Putian (Shanghai) Food Limited*	The PRC, 12 July 2017 (Company Limited)	The PRC	RMB2,000,000	—	100	Wholesale pre-packaged food, organisation of exhibition events, technology development, and consultancy services
Putian (China) Corporation Limited* (Note (i))	The PRC, 11 April 2018 (Company Limited)	The PRC	Nil	100	—	Financial investment management platform and guarantee of the Group in PRC

* For identification purpose only.

Note:

(i) The registered capital of Putian (China) Corporation Limited is RMB100,000,000. As at 31 December 2018, the Group had not injected any capital to Putian (China) Corporation Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

18. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2018 RMB'000	2017 RMB'000
Hogs feeds	**42,732**	70,932
Raw materials (Note)	**16,555**	11,991
Frozen pork products	**9,015**	20,838
	68,302	103,761

Note: Included in the raw materials were mainly corn, soya meat, wheat barn and feed premix ready for the mixture of animal feeds.

(b) The analysis of the amount of inventories recognised as an expense are as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**412,708**	380,084

19. BIOLOGICAL ASSETS

Movements of the biological assets are as follows:

	Breeder hogs RMB'000	Commodity hogs RMB'000	Total RMB'000
As at 1 January 2017	7,725	83,518	91,243
Acquisition of a subsidiary (Note 44)	14,364	4,637	19,001
Increase due to purchases	7,032	291,680	298,712
Increase due to raising (Feeding cost and others)	6,833	154,958	161,791
Transfer	(16,672)	16,672	—
Decrease due to retirement and deaths	(4,938)	(5,789)	(10,727)
Decrease due to sales	(6,309)	(436,648)	(442,957)
Change in fair value less costs to sell	8,199	7,705	15,904
As at 31 December 2017 and 1 January 2018	16,234	116,733	132,967
Increase due to purchases	**10,261**	**274,453**	**284,714**
Increase due to raising (Feeding cost and others)	**10,332**	**191,568**	**201,900**
Transfer	**(12,610)**	**12,610**	**—**
Decrease due to retirement and deaths	**(937)**	**(8,187)**	**(9,124)**
Decrease due to sales	**(6,569)**	**(444,733)**	**(451,302)**
Change in fair value less costs to sell	**2,172**	**6,818**	**8,990**
As at 31 December 2018	**18,883**	**149,262**	**168,145**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

19. BIOLOGICAL ASSETS (Continued)

The numbers of biological assets are as follows:

	2018	2017
Breeder hogs	**1,757**	1,750
Commodity hogs	**75,476**	75,861
	77,233	77,611

Analysed for reporting purposes as:

	2018 RMB'000	2017 RMB'000
Current assets	**149,262**	116,733
Non-current assets	**18,883**	16,234
At the end of the year	**168,145**	132,967

Note: The commodity hogs are primarily held for further growth for the production of pork and are classified as current assets. The breeder hogs are prime hog of excellent qualities that is selected as breeding stock, including boars and gilts, are classified as non-current assets.

The Group is exposed to fair value risks arising from changes in price of the hogs. The Group does not anticipate that the price of hogs will significantly decline in the foreseeable future and the directors of the Company are of the view that there is no available derivative or other contracts which the Group can enter into manage the risk of a decline in the price of the hogs.

The Group is exposed to a number of risks related to biological assets and exposed to the following operation risks:

(a) Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates breeding of hogs. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

(b) Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including but not limit to regular inspections, disease controls, surveys and insurance.

In the second half of 2018, the industry was challenged by the outbreak of African Swine Fever. One of the Group's production base, suspended operations and sales of hogs for 6 weeks as required by the People's Government of Putian, Fujian Province, upon stringent monitor and assessment, the Group's operations were recovered in December 2018. No hogs of the Group were culled as the effect of outbreak of African Swine Fever.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

19. BIOLOGICAL ASSETS (Continued)

The Qualification of Valuer

The Group's biological assets were independently valued by external valuer, Asset Appraisal Limited (the "Valuer"). The Valuer and its professional valuers in charge of this valuation have appropriate qualifications and relevant experiences in various appraisal assignments involving biological assets and agricultural produce. The professional valuers of the Valuer participated in this valuation include professional member of the Royal Institution of Chartered Surveyors (the "MRICS"), professional member of the Hong Kong Institute of Surveyors (the "MHKIS"), professional member of the China Institute of Real Estate Appraisal (the "CIREA"), charterholder of the Chartered Financial Analyst Institute (the "CFA") and member of the Global Association of Risk Professional (the "FRM").

Among the professional institutions mentioned above, the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors are member organisations of the International Valuation Standards Council (the "IVSC") which encourages their respective members to adopt and use the International Valuation Standards (including relevant standards on Biological Asset Valuation) laid down by the IVSC.

Based on the above qualification and various experiences of the Valuer and/or its members in providing biological asset valuation services to various companies listed on the Stock Exchange and other stock exchanges in the United States, which engage in the business of husbandry and agriculture industry, the directors are of the view that the Valuer is competent to determine the fair value of the Group's biological assets.

Limiting conditions and major assumptions

The Group currently has self-operating hog farm on which various curtain-barns are erected. Breeder hogs, porker and piglets of similar age or in the same stage of life cycle are moved into a curtain-barn. For administration purposes, the housekeeper of the hog farm would keep proper warehouse records on the number of hogs or piglets moved into or out of the curtain-barns from time to time throughout the breeding period. To facilitate the breeding process, a group of hogs or piglets within a curtain-barn are sub-divided into certain number of sub-groups of more or less the same size and each of these sub-groups are separated from each other by means of physical barriers. The deposition of hogs or piglets in this manner would also facilitate the physical counting on the number of hogs or piglets with the curtainbarn.

The following principal assumptions have been adopted by an independent external valuer:

(a) there will be no major change in the existing political, legal and economic conditions in the PRC;

(b) save for those proposed changes on taxation policies announced by the Tax Bureau of the PRC, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the Group;

(c) the interest rates and exchange rates will not differ materially from those presently prevailing;

(d) the biological assets are properly fed with balance diets such that they are gaining weight in accordance under normal growth rate and are receiving appropriate veterinary care;

(e) the biological assets are free from any animal diseases, including but not limiting to Sarcoptic mange, internal parasites, swine influenza such that they are all healthy and are capable to generate valuable outputs in line with normal expectations and subject to normal operating expenses;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

19. BIOLOGICAL ASSETS (Continued)

Limiting conditions and major assumptions (Continued)

(f) the availability of finance will not be a constraint on the breeding of the biological assets;

(g) the production facilities, systems and the technology utilised by the Group in carrying out its breeding operations do not infringe any relevant regulations and law;

(h) the Group has obtained or shall have no impediment to obtain all necessary governmental permits and approvals to carry out its breeding operations in the PRC;

(i) the biological assets are not subject to any liabilities, interest-bearing loans and encumbrances that would impair their fair value as at the relevant valuation date;

(j) the Group will secure and retain competent management, key personnel, marketing and technical staff to carry out and support its breeding operations; and

(k) the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the fair value of the biological assets.

20. DEPOSITS PAID FOR PROPERTY, PLANT AND EQUIPMENT

	2018 **RMB'000**	2017 RMB'000
Deposits paid for property, plant and equipment (Note)	**10,000**	12,553

Note: The deposits for property, plant and equipment as at 31 December 2018 and 2017 were mainly for the purchase of equipment for upgrading of production facilities in the Group's slaughterhouse and breeding farm.

21. TRADE RECEIVABLES

	2018 **RMB'000**	2017 RMB'000
Trade receivables	**101,542**	97,008
Less: Allowances for credit loss	**(968)**	—
	100,574	97,008

The fair values of trade receivables approximate their carrying amount.

As at 31 December 2018 and 1 January 2018, there were no trade receivables from contracts with customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

21. TRADE RECEIVABLES (Continued)

The Group normally allows a credit period ranging from cash upon delivery to 60–90 days depending on the customer's creditworthiness and the length of business relationship with the customers. The ageing analysis of trade receivables based on the invoice date at the years ended 31 December 2018 and 2017 is as follows:

	2018 RMB'000	2017 RMB'000
Within 30 days	**22,864**	33,633
31 to 90 days	**77,834**	63,375
91 to 180 days	**591**	—
Over 180 days	**253**	—
	101,542	97,008

As at 31 December 2017, there was no trade receivables that are past due but not impaired.

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

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 38(b).

22. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Advance to staff (Note (a))	**1,116**	1,506
Other receivables (Note (b))	**28,000**	—
Other deposits paid and prepayments (Note (c))	**96,665**	73,006
	125,781	74,512

Notes:

(a) The amount was mainly for the purchase of raw materials and commodity hogs on behalf of the Group.

(b) The amount was the consideration receivable for disposal of a workshop to a third party on 2 November 2018.

(c) During the year ended 31 December 2018, the amount was mainly for the acquisition of breeder hogs and parental breeder hogs of approximately RMB51,395,000 (2017: approximately RMB35,960,000). During the year ended 31 December 2018, the deposits paid of approximately RMB35,650,000 which mainly related to prepayments paid to an advertisement company for television advertisements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

23. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

Cash and Cash equivalents compose:

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**9,091**	7,475
Pledged bank deposits	**4,275**	4,290
Bank overdrafts	**—**	(4,132)
	13,366	7,633

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of six months or less and carry interest at the prevailing market rates which at 1.55% per annum during the reporting period (2017: 1.55%). The bank balances are deposited with creditworthy banks with no recent history of default.

Included in the cash and bank balances at the end of the reporting period were amounts in RMB of approximately RMB4,484,000 (2017: approximately RMB4,319,000) which are not freely convertible into other currencies.

Reconciliation of liabilities arising from financing activities

	Bank overdraft RMB'000 (Note 23)	Derivative financial liability RMB'000 (Note 30)	Obligation under finance lease RMB'000 (Note 27)	Amount due to a shareholder RMB'000 (Note 28)	Borrowings RMB'000 (Note 26)	Convertible bonds RMB'000 (Note 30)	Total RMB'000
As at 1 January 2017	4,132	38,547	–	–	245,071	85,931	373,681
Financing cash flow, net	(141)	–	35,000	12,261	9,564	(6,505)	50,179
Foreign exchange adjustment	(535)	(1,832)	–	–	(5,358)	(7,450)	(15,175)
Other cash flow	816	–	–	–	–	–	816
Other non-cash movement	141	(26,131)	–	–	8,192	32,787	14,989
Net debt as at 31 December 2017 and 1 January 2018	4,413	10,584	35,000	12,261	257,469	104,763	424,490
Financing cash flow, net	(72)	–	(12,969)	(7,482)	(474)	(6,332)	(27,329)
Foreign exchange adjustment	61	467	–	357	5,170	6,461	12,516
Other cash flow	(4,474)	–	–	–	–	–	(4,474)
Other non-cash movement	72	(2,239)	2,262	–	18,429	32,958	51,482
Net debt as at 31 December 2018	–	8,812	24,293	5,136	280,594	137,850	456,685

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

24. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	7,631	5,518
Bills payables	10,400	6,400
	18,031	11,918

The ageing analysis of trade payables is as follows:

	2018 RMB'000	2017 RMB'000
Within 30 days	2,291	2,009
31 to 90 days	1,392	1,784
91 to 180 days	3,948	1,725
	7,631	5,518

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

The Group normally obtains credit terms within 60 days from its suppliers (2017: 60 days). The bills payables are matured within twelve months (2017: twelve months) from the end of the reporting period.

25. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Deposits received	1,763	957
Other payables for property, plant and equipment	2,002	1,565
Accruals and other payables	38,918	16,279
	42,683	18,801
Less non-current portion — other payables	(24,509)	—
Accrual, deposit received and other payable — current portion	18,174	18,801

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

26. BORROWINGS

The analysis of the carrying amount of borrowings is as follows:

	2018 RMB'000	2017 RMB'000
Borrowing — secured	**255,094**	257,469
Borrowing — unsecured	**25,500**	—
	280,594	257,469

At 31 December 2018, the borrowings were repayable as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount repayable:		
On demand or within one year	**275,094**	257,469
Over one year	**5,500**	—
	280,594	257,469

	2018 RMB'000	2017 RMB'000
Borrowings at:		
— Bank borrowings at floating interest rate	**158,712**	167,446
— Other unsecured borrowings at fixed interest rate	**25,500**	—
— Non-convertible note at fixed interest rate	**96,382**	90,023
	280,594	257,469

The borrowings were denominated in RMB and Hong Kong dollars. The borrowing of approximately RMB105,144,000 was denominated in Hong Kong dollars for the year ended 31 December 2018 (2017: approximately RMB97,518,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

26. BORROWINGS (Continued)

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

	2018 %	2017 %
Floating rate	**3.22–5.47**	3.42–4.89
Fixed rate	**6.00–10.00**	6.00

On 28 September 2016, the Company and Vandi Investments Limited ("the Investor"), a limited liability company incorporated in the BVI indirectly and wholly-owned by CCB International (Holdings) Limited and Mr. Cai Chenyang, entered into the subscription agreement (the "Subscription Agreement 2") in respect of the issue of the non-convertible note ("Note") in the principal amount of HK$110,000,000 equivalent to approximately RMB95,071,000 due 2018 with an annual interest rate of 6.0% payable semi-annually and bear an administrative fee of 2.0% per annum which was deducted as a lump sum from the issue price at the closing of the subscription and issue of the Note on 13 October 2016.

	2018 RMB'000	2017 RMB'000
Note	**96,382**	90,023

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

On 15 October 2018, the Company obtained the approval from Note holder to extend the maturity date of the Note for no more than six months from 15 October 2018.

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

As at 31 December 2018, the obligations of the Company in relation to the Note of approximately RMB96,382,000 were secured by, among others, 816,000,000 ordinary shares of the Company by Zhan Rui, as summarised in the Company's announcement dated 28 September 2016 (Note 40(c)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

26. BORROWINGS (Continued)

The collaterals for the Group's bank borrowings are as follows:

	2018 RMB'000	2017 RMB'000
Property, plant and equipment (Note 15)	**85,316**	94,849
Prepaid lease payments (Note 16)	**17,904**	18,381
	103,220	113,230

As at 31 December 2018, the Group's bank borrowings of RMB149,950,000 (2017: approximately RMB149,950,000) was guaranteed by the Company, Company's director, Mr. Cai Chenyang and pledged assets of the subsidiary, Tianyi (Fujian) Modern Agriculture Development Co., Ltd.

As at 31 December 2018, the Group's obligation under finance lease of approximately RMB24,293,000 (2017: RMB35,000,000) was guaranteed by the pledged assets of the subsidiary, Tianyi (Fujian) Modern Agriculture Development Co., Ltd.

27. OBLIGATION UNDER FINANCE LEASE

	Present value of minimum lease payments as at 31 December 2018 RMB'000	Present value of minimum lease payments as at 31 December 2017 RMB'000
Amount payable under finance lease:		
Within a period of more than one year but not more than two years	**26,274**	13,137
Within a period of more than two years but not more than five years	**—**	26,274
	26,274	39,411
Less: future finance charge	**(1,981)**	(4,411)
Present value of lease obligation	**24,293**	35,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

27. OBLIGATION UNDER FINANCE LEASE (Continued)

	Present value of minimum lease payments as at 31 December 2018 RMB'000	Present value of minimum lease payments as at 31 December 2017 RMB'000
Less: Amount due for settlement within twelve months (shown under current liabilities)	—	—
Amount due for settlement over twelve months (show under non-current liabilities)	24,293	35,000

The Group's obligation under the finance lease is secured by the lessor's charge over the leased assets.

28. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder was unsecured, interest-free and are not repayable within twelve months.

29. DEFERRED REVENUE

	2018 RMB'000	2017 RMB'000
Arising from government grant (Note)	2,680	2,933

Analysed for reporting purposes as:

	2018 RMB'000	2017 RMB'000
Current liabilities	253	253
Non-current liabilities	2,427	2,680
	2,680	2,933

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

30. CONVERTIBLE BONDS/DERIVATIVE FINANCIAL LIABILITY

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

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

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

As at 31 December 2018, no Convertible Bond due 2018 has been converted.

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

The Convertible Bond was due on 15 October 2018. On 15 October 2018, the Company obtained the approval from Convertible Bond holder to extend the maturity date of the Convertible Bond for no more than six months from 15 October 2018.

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

(a) the aggregate principal amount of such outstanding Convertible Bond due 2018 held by such bondholder;

(b) an amount which would give such bondholder an internal rate of return of 10% in respect of the aggregate principal amount of such outstanding Convertible Bond due 2018 as at the Maturity Date; and

(c) any accrued but unpaid interest and administrative fee on such outstanding Convertible Bond due 2018.

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

(a) liability component is equal to the difference between the net proceeds received and the fair value of derivative financial liability, amounted to approximately HK$89,912,000 equivalent to approximately RMB77,088,000, and it is subsequently measured at amortised cost by applying an effective interest rate of 36.90% per annum;

(b) derivative financial liability, which is initially measured at fair value, amounted to approximately HK$53,422,000 equivalent to approximately RMB45,803,000 which is presented in current liabilities as derivative financial liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

30. CONVERTIBLE BONDS/DERIVATIVE FINANCIAL LIABILITY (Continued)

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

	Liability component RMB'000	Derivative financial liability RMB'000	Total RMB'000
As at 1 January 2017	85,931	38,547	124,478
Imputed interest charged (Note 8)	32,787	—	32,787
Coupon interest payable	(6,505)	—	(6,505)
Change in fair value	—	(26,132)	(26,132)
Exchange alignment	(7,450)	(1,831)	(9,281)
As at 31 December 2017 and 1 January 2018	104,763	10,584	115,347
Imputed interest charged (Note 8)	**33,829**	**—**	**33,829**
Coupon interest payable	**(7,203)**	**—**	**(7,203)**
Change in fair value	**—**	**(2,239)**	**(2,239)**
Exchange alignment	**6,461**	**467**	**6,928**
As at 31 December 2018	**137,850**	**8,812**	**146,662**

Net cash flow for issue/redemption of convertible bonds and non-convertible note is RMB Nil during the year ended 31 December 2018 (2017: Nil).

On 13 October 2016, Zhan Rui Investments Limited ("Zhan Rui"), a controlling shareholder of the Company executed a deed of share charge (the "Share Charge Deed") in favour of the Investor pursuant to which Zhan Rui shall charge as beneficial owner by way of fixed charge all its right, title and interest from time to time in and to the 816,000,000 shares as continuing security for the payment and discharge of all the Company's and Zhan Rui's obligation and liabilities due, owing or incurred by it to the Investor under or pursuant to, among others, the Subscription Agreement 1, the bond instrument constituting the Convertible Bonds due 2018, and the Share Charge Deed.

As at 31 December 2018, the obligations of the Company in relation to the Convertible Bond due 2018 of RMB146,662,000 (2017: RMB115,347,000) were secured by, among others, 816,000,000 ordinary shares of the Company by Zhan Rui. (Note 40(c)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

30. CONVERTIBLE BONDS/DERIVATIVE FINANCIAL LIABILITY (Continued)

Fair value of convertible bonds and assumptions

The estimate of fair values of the Convertible Bond due 2018 granted were calculated by the Valuer using Binomial Option Pricing Model. The significant assumptions and inputs used in computing the fair value are based on the management's best estimate. The significant inputs into the model were spot share price at the year ended, time to maturity, expected volatilities, dividend and effective interest rate.

The value of the convertible bonds calculated using the Binomial Option Pricing Model are subject to the fundamental limitations of the model and the uncertainties of those significant assumptions and inputs. Any change to those assumptions and inputs may result in changes in the fair value of the convertible bonds.

Assumptions and inputs adopted in the valuation are listed below:

	Convertible Bond due 2018 on 13 October 2016
Share price at grant date/redemption date (HK$)	0.485
Exercise price (HK$)	0.55
Expected volatility (Note (a))	57.78%
Dividend yield	Nil
Risk-free interest rate (Note (b))	0.456%
Life of Convertible Bond	2 years

Notes:

(a) Volatility is the annualised standard deviation of the continuously compounded rates of return on the daily adjusted share price of the Issuer.

(b) Risk-free rate represents the yields to maturity of respective Hong Kong Exchange Fund Note as at the valuation date.

(c) The Bondholder early redemption option is subject to the condition the sum of the number of conversion shares and the number of shares constituted by the Securities Account Charge constitute less than 50% of the issued share capital. Advised by the Company, the condition is not satisfied. As a result, the fair value of Bondholder early redemption option is minimal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

31. SHARE OPTION SCHEME

Detail of the share option scheme of the Company

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

31. SHARE OPTION SCHEME (Continued)

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

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

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

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

As at 31 December 2018, the number of shares available for issue under the Share Option Scheme were 99,980,000 ordinary shares, representing 5.3% of the number of issued shares of the Company.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

31. SHARE OPTION SCHEME (Continued)

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

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

Grantee	Exercisable period	Exercisable price per shares (HK$)	Balance as at 1 January 2017 ('000)	Lapsed during the year ('000)	Balance as at 31 December 2017 ('000)
Executive Directors					
— Mr. Cai Chenyang	(1) 31 Dec 2015 to 30 Mar 2025	0.595	21,000	—	21,000
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	24,960	—	24,960
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	26,480	—	26,480
— Mr. Cai Haifang	(1) 31 Dec 2015 to 30 Mar 2025	0.595	1,220	—	1,220
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	1,600	—	1,600
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	1,600	—	1,600
Employees of the Group	(1) 31 Dec 2015 to 30 Mar 2025	0.595	10,300	(3,460)	6,840
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	16,020	(4,760)	11,260
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	17,660	(5,120)	12,540
			120,840	(13,340)	107,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

31. SHARE OPTION SCHEME (Continued)

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

Grantee	Exercisable period	Exercisable price per shares (HK$)	Balance as at 31 December 2017 and 1 January 2018 ('000)	Lapsed during the year ('000)	Balance as at 31 December 2018 ('000)
— Mr. Cai Chenyang	(1) 31 Dec 2015 to 30 Mar 2025	0.595	21,000	—	21,000
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	24,960	—	24,960
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	26,480	—	26,480
— Mr. Cai Haifang	(1) 31 Dec 2015 to 30 Mar 2025	0.595	1,220	—	1,220
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	1,600	—	1,600
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	1,600	—	1,600
Employees of the Group	(1) 31 Dec 2015 to 30 Mar 2025	0.595	6,840	(1,820)	5,020
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	11,260	(2,700)	8,560
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	12,540	(3,000)	9,540
			107,500	(7,520)	99,980

Notes:

(a) The share options were vested upon granted and recognised equity-settled share-based payment expense over vesting period.

(b) The exercise price of the Share Options was subject to adjustments in the case of capitalisation of profits or reserve, rights or bonus issues, consolidation, subdivision or reduction of the share capital or other changes in the capital structure of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

31. SHARE OPTION SCHEME (Continued)

Fair value of share options and assumptions

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

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

Assumptions and inputs adopted in the valuation are listed below:

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

Notes:

(a) Fair value of all the share options granted at 31 March 2015 were HK$49,120,000 equivalent to approximately RMB38,697,000. After 54 staffs declined the share options to subscribe for a total of 60,020,000 shares, the adjusted fair value of all the share options granted and accepted was HK$31,200,000 equivalent to approximately RMB25,000,000. As the vesting period has finished during the year 31 December 2017, The Group did not recognize equity-settled share-based payment expense in the profit and loss for the year ended 31 December 2018 (2017:approximately RMB3,764,000).

(b) Volatility represents annualized standard deviation of the weekly return of stock price of GCHE.rm, 600975.ch and 002505.ch.

(c) Risk free rate represents the yields to maturity of respective HKD Hong Kong Sovereign Curve.

(d) The exercise multiple defines the early exercise strategy by assuming that early exercise happens when the stock price is the certain multiple of the exercise price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

32. WARRANTS

Detail of the warrants of the Company

On 9 October 2015, the Company issued 160,000,000 unlisted warrants ("Warrants") at HK$0.05 each entitling nine subscribers which are members of the management of the Group to subscribe for an aggregate of up to 320,000,000 ordinary shares (with par value of HK$0.05 each) of the Company at HK$0.65 each within the period of two years ending 9 October 2017 in accordance with the terms and conditions of the relevant subscription agreement.

The price of the Warrants was HK$0.05 per Warrant (with a net issue price of approximately HK$0.045 per Warrant). The aggregate of the price of each Warrant and 2 ordinary shares of the Company to be allotted and issued upon exercise of such Warrant was HK$1.35.

The net proceeds of issue of Warrants were approximately HK$7,223,000 (equivalent to approximately RMB5,793,000). Assuming full exercise of all Warrants, it is expected that additional gross proceeds and net proceeds of approximately HK$208,000,000 (equivalent to approximately RMB166,816,000) will be raised. The warrants have been lapsed during the year ended 31 December 2017.

Fair value of warrants and assumptions

On 9 October 2015, upon the issuance of the share pursuant to the open offer, abovementioned warrants were issued, which resulted in a fair value loss of approximately HK$8,685,000 (equivalent to approximately RMB6,965,000), which recognized in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015. As at 31 December 2015, the warrants are recognised as equity instrument.

An independent valuation on the warrants issued in accordance with the terms of the warrants was performed by the Valuer, using Black-Scholes model with certain assumptions, including expected volatility of the share price, the dividends expected on the shares, the risk free interest rate during the life of the warrants.

The major assumptions applied in the valuations are as follows:

Valuation date:	As at 9 October 2015	As at 31 December 2015
Expected volatility of share price	63.25%	61.18%
Expected dividend yield	Nil	Nil
Risk-free rate	0.315%	0.416%

33. SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares HK$'000	RMB$'000
Authorised:			
At 1 January 2017 and 31 December 2017, 1 January 2018, 31 December 2018 ordinary shares of HK$0.05 each	80,000,000,000	4,000,000	3,240,009
Issued and fully paid:			
At 1 January 2018 ordinary shares of HK$0.05 each	1,600,000,000	80,000	65,178
Issuance of new shares on 15 October 2018 of HK$0.05 each (Note (i))	289,000,000	14,450	12,716
At 31 December 2018 ordinary shares of HK$0.05 each	1,889,000,000	94,450	77,894

Note:

(i) On 15 October 2018, 190,000,000 and 99,000,000 new shares were allotted and issued to Zhan Rui Investments Limited and BACG International (HK) Limited respectively at a subscription price of HK$0.14 per share. The net proceeds from the subscription are HK$39,900,000, equivalent to approximately RMB35,112,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Investment in subsidiaries		**81**	81
Current assets			
Amounts due from subsidiaries		**262,932**	247,830
Deposits paid and prepayments		**635**	670
Cash and bank balances		**618**	240
		264,185	248,740
Current liabilities			
Accruals and other payables		**5,284**	5,650
Borrowing		**105,144**	97,518
Derivative financial liability		**8,812**	10,584
Convertible bonds		**137,850**	104,763
Bank overdrafts		**–**	4,132
		257,090	222,647
Net current assets		**7,095**	26,093
Total assets less current liabilities		**7,176**	26,174
Non-current liability			
Amount due to a shareholder		**5,136**	12,261
Net assets		**2,040**	13,913
Equity			
Share capital	33	**77,894**	65,178
Share premium and reserves	35	**(75,854)**	(51,265)
Total equity		**2,040**	13,913

Approved by the Board of Directors on 28 March 2019 and signed on its behalf by:

Cai Chenyang
Executive Director

Cai Haifang
Executive Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

35. RESERVES OF THE COMPANY

	Share premium RMB'000	Share options reserve RMB'000	Warrants reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2017	18,586	25,731	12,758	(86,806)	(29,731)
Loss and total comprehensive loss for the year	—	—	—	(25,298)	(25,298)
Share-based payment expenses	—	3,764	—	—	3,764
Lapse of share options	—	(2,692)	—	2,692	—
Lapse of warrants	—	—	(12,758)	12,758	—
As at 31 December 2017 and 1 January 2018	18,586	26,803	—	(96,654)	(51,265)
Loss and total comprehensive loss for the year	**—**	**—**	**—**	**(46,985)**	**(46,985)**
Issuance of new shares	**22,889**	**—**	**—**	**—**	**22,889**
Issuing cost for new shares	**(493)**	**—**	**—**	**—**	**(493)**
Lapse of share options	**—**	**(1,777)**	**—**	**1,777**	**—**
As at 31 December 2018	**40,982**	**25,026**	**—**	**(141,862)**	**(75,854)**

36. RETIREMENT BENEFIT PLANS

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,500 (2017: HK$:1,500) and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,500 (2017: HK$1,500) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries and an associate in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and an associate were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss of approximately RMB1,408,000 (2017: approximately RMB1,760,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the reporting period.

The capital structure of the Group consists of interest-bearing borrowings, amount due to a shareholder, bank overdrafts, obligation under finance lease, convertible bond and equity (comprising issued share capital, share premium, reserves and retained earnings).

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost and the risks associates with each class of the capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as raising and repayment of borrowings.

The Group monitors capital on the basis of gearing ratio. This ratio is calculated by dividing the total borrowings with total equity. The Group's overall strategy remains unchanged during the reporting period. The gearing ratios at the end of each reporting period were as follows:

	2018 RMB'000	2017 RMB'000
Total debts (Note)	**456,685**	413,625
Total equity	**618,740**	630,110
Gearing ratio (%)	**73.8%**	65.6%

Note: Total debts comprise bank overdrafts, borrowings, obligation under finance lease, amount due to a shareholder and convertible bonds are detailed in Notes 23, 26, 27, 28 and 30 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
At amortised cost (including cash and bank balances)		
— Trade receivables	**100,574**	97,008
— Deposits paid and other receivables	**32,686**	9,095
— Pledged bank deposits	**4,275**	4,290
— Cash and bank balances	**9,091**	7,475
Financial liabilities		
Amortised cost		
— Trade and bills payables	**18,031**	11,918
— Accruals, deposits received and other payables	**42,683**	18,801
— Amount due to a shareholder	**5,136**	12,261
— Borrowings	**280,594**	257,469
— Bank overdrafts	**—**	4,132
— Convertible bonds	**137,850**	104,763
— Obligation under finance lease	**24,293**	35,000
Fair value through profit or loss		
— Derivative financial liability	**8,812**	10,584

(b) Financial risk management objectives and policies

The directors of the Group monitors and manages the financial risks relating to the operations of the Group through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest risk), credit risk, business risk and liquidity risk.

The Group's major financial instruments include trade receivables, deposits paid and other receivables, trade and bills payables, accruals, deposits received and other payables, amount due to a shareholder, pledged bank deposits, cash and bank balances, borrowings, bank overdrafts, convertible bonds, obligation under finance lease and derivative financial liability. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk

It is the risk that a counterparty is unable to pay amount in full when due. It arises primarily from the Group's trade receivables, deposit paid and other receivable. The Group limits its exposure to credit risk by rigorously selecting counterparties. The Group mitigates its exposure to risk relating to trade receivables by dealing with diversified customers with sound financial standing. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all receivable, deposit paid balances are monitored on an ongoing basis and overdue balances are followed up by senior management.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2018.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the aging for billing. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information.

As at 31 December 2018, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in related to wholesale and retail business and are transacted in cash or credit. The Group's trade receivables arise from wholesale and retail business of pork products . As at the end of the year, the top three debtors and large debtor accounted for approximately 37.5% and 13.8% (2017: 23.3% and 9.1%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors 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 debtors saved for the debtor related to the impaired trade receivable disclosed in the below. Management makes periodic assessment on the recoverability of the trade receivables based on the historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The directors consider the Group's credit risk of these receivables to be low except for the impaired trade receivable disclosed in the below.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal Credit rating	Description	Trade Receivables
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired
Doubtful	There have been significant increases in credit risk since initial recognition	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired
Write off	There is evidence indicating that the debtor is in financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate RMB'000	Gross carrying amount RMB'000	Loss allowance RMB'000
Low risk	0.71%	38,565	272
Doubtful	0.71%	62,724	443
Loss	100%	253	253
		101,542	968

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The closing loss allowances for, trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Not Credit-impaired RMB'000	Credit-impaired RMB'000	Total RMB'000
At 31 December 2017 under HKAS 39	—	—	—
Adjustment upon application of HKFRS 9	274	—	274
At 1 January 2018 — As restated	274	—	274
Impairment losses recognised	2,238	253	2,491
Write off	(1,797)	—	(1,797)
At 31 December 2018	715	253	968

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 60-90 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The directors of the Company estimate the amount of ECL related to deposits paid and other receivables is immaterial to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to its bank deposits and interest bearing bank loans. Interest-bearing bank loans at floating rates expose the Group to interest rate risk.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and borrowings (Note 26). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates arising from the Group's RMB denominated borrowings.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the floating rate borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease throughout the reporting period is used internally for assessment of possible change in interest rate.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately RMB794,000 (2017: approximately RMB858,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

Currency risk

As most of the Group's monetary assets and liabilities are denominated in RMB and the Group conducts its business transactions principally in RMB, the currency risk of the Group is not significant and the Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

In the opinion of the directors of the Company, since the currency risk is minimal, no sensitivity analysis is presented.

Business risk

The Group is exposed to financial risks arising from changes in prices of hogs and the change in cost and supply of feed ingredients, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and animal diseases. The Group has little or no control over these conditions and factors.

The Group is subject to risks relating to its ability to maintain animal health status. Livestock health problems could adversely impact production and consumer confidence. The Group monitors the health of its livestock on a regular basis and has procedures in place to reduce potential exposure to infectious diseases. Although policies and procedures have been put into place, there is no guarantee that the Group will not be affected by epidemic diseases.

Save for the procurement of breeder hogs, the Group manages its exposure to fluctuation in the price of the key raw materials used in the operations by maintaining a large number of suppliers so as to limit high concentration in a particular supplier.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

The Group is exposed to minimal liquidity risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from existing shareholders' funds and internally generated cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of bank balances and cash deemed adequate by management to finance the Group's operations and mitigate the effect of fluctuations in cash flows. Management monitors the utilisation of borrowings on a regular basis.

The following tables detail the Group's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted Average Interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2018						
Non-derivative financial liabilities						
Trade payables and bills payables	–	18,031	–	–	18,031	18,031
Accruals, deposits received and other payables	–	18,174	24,509	–	42,683	42,683
Amount due to a shareholder	–	–	5,136	–	5,136	5,136
Borrowings	5.04	280,416	6,820	–	287,236	280,594
Convertible bond	36.90	140,903	–	–	140,903	137,850
Obligation under finance lease	6.32	–	26,274	–	26,274	24,293
		457,524	62,739	–	520,263	508,587
Derivative financial liabilities						
Derivative financial liabilities	–	–	–	–	–	8,812
		457,524	62,739	–	520,263	517,399

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted Average Interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2017						
Non-derivative financial liabilities						
Trade payables and bills payables	—	11,918	—	—	11,918	11,918
Accruals, deposits received and other payables	—	18,801	—	—	18,801	18,801
Amount due to a shareholder	—	—	12,261	—	12,261	12,261
Borrowings	5.09	272,670	—	—	272,670	257,469
Bank overdrafts	3.34	4,132	—	—	4,132	4,132
Convertible bond	36.90	131,028	—	—	131,028	104,763
Obligation under finance lease	4.70	—	13,137	26,274	39,411	35,000
		438,549	25,398	26,274	490,221	444,344
Derivative financial liabilities						
Derivative financial liabilities	—	—	—	—	—	10,584
		438,549	25,398	26,274	490,221	454,928

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

39. FAIR VALUE MEASUREMENT

The fair value of financial assets and financial liabilities are determinate as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determine with reference to quoted market bid prices and ask prices respectively; and

- the fair value of the financial assets and financial liabilities are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

Except as detailed in the following table, the directors consider that the carrying amounts of financial liabilities recognised in the consolidated financial statements approximate their fair value.

	As at 31 December 2018		As at 31 December 2017	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Convertible bonds due 2018	**137,850**	**137,850**	104,763	161,366

Fair value measurements recognised in the consolidated statement of financial position

For financial reporting purpose, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entity.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

39. FAIR VALUE MEASUREMNET (Continued)

Fair value measurements recognised in the consolidated statement of financial position (Continued)

The tables below analyses the fair value of the Group's assets that are measurement at fair value on a recurring basis. The different levels are defined as follows:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Level 4 RMB'000
As at 31 December 2018				
Biological assets				
— breeder hogs	**—**	**18,883**	**—**	**18,883**
— commodity hogs	**—**	**149,262**	**—**	**149,262**
	—	**168,145**	**—**	**168,145**
Derivative financial liability	**—**	**8,812**	**—**	**8,812**

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Level 4 RMB'000
As at 31 December 2017				
Biological assets				
— breeder hogs	—	16,234	—	16,234
— commodity hogs	—	116,733	—	116,733
	—	132,967	—	132,967
Derivative financial liability	—	10,584	—	10,584

There were no transfers between Level 1 and Level 2 and no transfers into or out of Level 3 during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

39. FAIR VALUE MEASUREMNET (Continued)

Fair value measurements recognised in the consolidated statement of financial position (Continued)

Type	Fair value hierarchy	Valuation technique and key input	Significant observable input
Biological hogs			
Breeder hogs and commodity hogs (Note 19)	Level 2	The fair value less costs to sell of the breeder hogs and porkers are determined using market approach with reference to the market-determined prices of items with similar age, weight and breeds	• Prevailing market price of pigs (RMB 38.46/kg) (2017: RMB 30.38/kg) (Note (a)) • Prevailing market price of piglets/weaners (RMB49.69/kg) (2017: RMB58.18/kg) (Note (b)) • Prevailing market price of boars (RMB10,350/head) (2017: RMB11,151/head) (Note (c)) • Prevailing market price of sow (RMB9,500/head) (2017: RMB10,805/head) (Note (d))
Financial liability			
Derivative financial liability (Note 30)	Level 2	The fair value is determined using Binomial Option Pricing Model with assumptions with risk free rate, volatility, dividend yield and credit spread keep constant throughout the life of the convertible bond	• Risk free rate is 1.730% (Note (e)) (2017: 1.034%) • Expected volatility is 56.518% (Note (f))(2017: 43.372%) • Dividend yield is nil (2017: nil) • Credit spread is 15.50% (Note (g)) (2017: 12.37%) • Life of the Bond is 0.29 year (Note (h)) (2017: 0.78 year)

The directors consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in the consolidated financial statements approximated their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

39. FAIR VALUE MEASUREMNET (Continued)

Fair value measurements recognised in the consolidated statement of financial position (Continued)

Notes:

(a) Market prices of pigs represent the prices of commodity hogs in Fujian Province of around 100 kg in weight. The market prices of pigs in Fujian Province were based on statistics released by the China Animal Agriculture Association (中國畜牧業協會).

(b) Market prices of piglet/weaners represent the prices of hogs that are less than 60 days old weighing about 20 kg in Fujian Province. The market prices of piglet/weaners in Fujian Province were based on statistics released by the China Animal Agriculture Association (中國畜牧業協會).

(c) Market prices of boars represent the market selling prices of male hogs around 6 months old in Fujian Province. The market prices of male hogs in Fujian Province were obtained from independent price inquiry by the Valuer.

(d) Market prices of sow represent the market selling prices of female hogs around 6 months old in Fujian Province. The market prices of female hogs in Fujian Province were obtained from independent price inquiry by the Valuer.

(e) Risk free rate represents the yields to maturity of respective Hong Kong Exchange Fund Note as at the valuation date.

(f) Volatility is the annualized standard deviation of the continuously compounded rates of return on the daily adjusted share price of the Issuer.

(g) Credit spread is determined with reference credit analysis of the Issuer and the market rate with similar credit ratio.

(h) Life of the Bond is determined between valuation date and the maturity date.

(i) The Bondholder early redemption option is subject to the condition the sum of the number of conversion shares and the number of shares constituted by the Securities by the Securities Account Charge constitute less than 50% of the issued share capital. Advised by the Company, the condition is not satisfied.

40. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had entered into transactions with related parties which, in the opinion of directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

(a) Key management personnel remuneration

	2018 RMB'000	2017 RMB'000
Short term employee benefits	3,566	5,732
Retirement benefits schemes contributions	413	189
	3,979	5,921

(b) As at 31 December 2018, the bank borrowings of approximately RMB149,950,000 were secured by pledge/charge over the Group's property, plant and equipment and land with total carrying value of approximately RMB103,220,000 (31 December 2017: approximately RMB113,230,000), and secured by guarantees provided by the Company and Mr. Cai Chenyang, bank borrowing of RMB8,762,000 was only secured by guarantee of Mr. Cai Chenyang, Mr. Cai Chenyang was chairman of the Board, chief executive officer, executive director and controlling shareholder of the Company.

(c) As at 31 December 2018, the obligations of the Company in relation to the Convertible Bond due 2018 with derivative financial liability of approximately RMB146,662,000 and Note of approximately RMB96,382,000 were secured by, among others, 816,000,000 ordinary shares of the Company by Zhan Rui, as summarized in the Company's announcement dated 28 September 2016. Mr. Cai Chenyang, the Chief Executive Officer, executive director and substantial shareholder of the Group, was deemed to be interested in 816,000,000 ordinary shares of the Company, which were held by Zhan Rui, a corporation controlled by Mr. Cai Chenyang.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

41. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

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

	2018 RMB'000	2017 RMB'000
Within one year	4,046	5,534
In the second to fifth years, inclusive	4,791	4,810
After five years	9,566	39,167
	18,403	49,511

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

42. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	75,781	73,639

43. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group, bank borrowings and finance lease of the Group (Note 26 and 27):

	2018 RMB'000	2017 RMB'000
Property, plant and equipment	85,316	94,849
Prepaid lease payments	17,904	18,381
	103,220	113,230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

44. BUSINESS COMBINATION

On 7 December 2016, the Group entered into a sale and purchase agreement to acquire 100% equity interest of the Putian Xianglixiang through its indirect wholly-owned subsidiary Tianyi at a consideration of RMB28,000,000 (equivalent to approximately HK$31,500,000). After the completion of the registration of transfer of the equity interest of the Putian Xianglixiang to Tianyi on 20 February 2017, the Putian Xianglixiang became an indirect wholly owned subsidiary of the Company. The details of the acquisition are summarised in the Company's announcement dated 7 December 2016.

Consideration transferred:

	RMB'000
Consideration paid by cash included in prepayment, deposits and other receivables as at 31 December 2017	10,000
Consideration paid in cash	18,000
Total consideration	28,000

Acquisition-related costs amounting to RMB57,000 have been excluded from the consideration transferred and have been recognised as an expense in profit or loss in the current year, within the 'Administrative expense' line item.

Assets acquired and liabilities recognized at the date of acquisition:

	RMB'000
Property, plant and equipment	3,814
Biological assets	19,001
Inventories	184
Cash and cash equivalents	258
Trade receivables	2,678
Prepayments and other receivables	5,094
Trade payables	(1,839)
Accruals and other payables	(1,002)
Net identified assets acquired	28,188
Consideration transferred	(28,000)
Gain on bargain purchase	188

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

44. BUSINESS COMBINATION (Continued)

Net cash outflow on acquisition of subsidiaries:

	RMB'000
Consideration paid in cash	18,000
Less: cash and cash equivalents balances acquired	(258)
	17,742

Impact of acquisition on the results of the Group

The acquired business contributed revenues of RMB25,494,000 and net profit of RMB513,000 to the Group for the period from 20 February 2017 to 31 December 2017. If the acquisition had occurred on 1 January 2017, consolidated revenue and consolidated profit after tax for the year ended 31 December 2017 would have been RMB538,063,000 and RMB7,683,000 respectively.

45. MAJOR NON CASH TRANSACTION

During the year ended 31 December 2018, consideration of disposal of property, plant and equipment of RMB28,000,000 was included in deposit paid, prepayments and other receivable. For further details, please refer to Note 22.

46. COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2019.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and the Prospectus, is set out below:

RESULTS

	For the year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	**517,257**	537,079	599,683	659,862	624,006
Cost of sales	**(462,521)**	(439,754)	(470,674)	(530,684)	(480,309)
Gross profit	**54,736**	97,325	129,009	129,178	143,697
Other income and losses	**34,199**	3,289	(2,317)	3,833	3,296
Gain/(loss) arising from change in fair value less costs to sell of biological assets	**8,990**	15,904	2,024	(2,725)	(663)
Selling and distribution expenses	**(34,327)**	(39,035)	(26,236)	(25,153)	(25,122)
Administrative expenses	**(44,423)**	(42,986)	(37,748)	(47,734)	(35,247)
Finance costs	**(53,542)**	(48,965)	(46,592)	(41,864)	(25,564)
Equity-settled share-based payment expense	**—**	(3,764)	(9,048)	(16,683)	—
Gain arising from fair value change of derivative financial liability	**2,239**	26,132	9,077	—	—
Fair value loss in issuance of unlisted warrants	**—**	—	—	(6,965)	—
(Loss)/profit before taxation	**(32,128)**	7,900	18,169	(8,113)	60,397
Taxation	**—**	—	—	—	—
(Loss)/profit for the year and attributable to owners of the Company	**(32,128)**	7,900	18,169	(8,113)	60,397

ASSETS AND LIABILITIES

	For the year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	**1,138,819**	1,087,971	1,029,791	933,547	877,349
Total liabilities	**(520,079)**	(457,861)	(429,064)	(341,038)	(297,977)
Equity attributable to owners of the Company	**618,740**	630,110	600,727	592,509	579,372

普甜
PUTIAN

Room 3312, 33/F., West Tower, Shun Tak Centre,
168-200 Connaught Road Central, Hong Kong.
香港干諾道中168至200號信德中心西座33樓3312室
Tel. 電話 : (852) 3582-4666
Fax 傳真 : (852) 3582-4567