

海升集团

2019 Interim Report

INTERIM REPORT 2019

HAISHENG

中國海升果汁控股有限公司
China Haisheng Juice Holdings Co., Ltd.

Stock Code:359

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Stock Code

359

Executive Directors:

Mr. Gao Liang (*Chairman*)

Mr. Ding Li

Mr. Zhao Chongjun

Mr. Wang Linsong

Independent non-executive directors:

Mr. Zhao Boxiang

Mr. Liu Zhongli

Mr. Chang Xiaobo

Company Secretary

Mr. Terence Sin Yuen Ko, FCCA

Authorised Representatives

Mr. Gao Liang

Mr. Terence Sin Yuen Ko, FCCA

Audit Committee Members

Mr. Chang Xiaobo (*Chairman*)

Mr. Zhao Boxiang

Mr. Liu Zhongli

Remuneration Committee Members

Mr. Zhao Boxiang (*Chairman*)

Mr. Liu Zhongli

Mr. Chang Xiaobo

Nomination Committee Members

Mr. Gao Liang (*Chairman*)

Mr. Liu Zhongli

Mr. Zhao Boxiang

Mr. Chang Xiaobo

Registered Office

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Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company
(Cayman) Limited

4th Floor, Royal Bank House

24 Shedden Road, George Town

Grand Cayman KY1-1110

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor
Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East, Wanchai

Hong Kong

Principal Bankers

Agriculture Bank of China

The Export-Import Bank of China

Bank of China

HIGHLIGHTS

- For the six months ended 30 June 2019, the Group's unaudited turnover decreased from approximately RMB814.1 million to approximately RMB503.4 million, representing a decrease of approximately 38.2% over the same period of last year.
- For the six months ended 30 June 2019, the Group's unaudited loss attributable to owners of the Company increased from approximately RMB21.4 million to approximately RMB79.9 million, representing an increase of approximately 272.7% over the same period of last year.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil).

Financial review

The Board announces that, for the six months ended 30 June 2019, the Group recorded an unaudited turnover of approximately RMB503.4 million, representing a decrease of approximately 38.2% over the same period of last year. Gross profit margin for the six months ended 30 June 2019 was approximately 27.8%, as compared with 17.6% for the same period of last year. The Group's unaudited loss attributable to owners of the Company increased from approximately RMB21.4 million to approximately RMB79.9 million, representing an increase of approximately 272.7% over the same period of last year.

For the period under review, turnover decreased by approximately 38.2% to approximately RMB503.4 million. Such decrease was mainly attributable to the fact that, in 2018, the apple eugenic area in northern China suffered from a large-scale frost damage, which led to a decrease in apple production. Thus, the insufficient supply of raw materials of apple juice concentrate resulted in a certain decline in the sales of apple juice concentrate.

For the period under review, the gross profit margin of the Group increased from approximately 17.6% to approximately 27.8% which was mainly attributable to the increase in proportion of sales of products mainly including apple sapling that has higher gross profit margin.

Other income increased by approximately 13.5% to approximately RMB111.5 million. Such increase was mainly attributable to the increase in government subsidies recognized during the period under review.

Distribution costs decreased by approximately 9.7% to approximately RMB129.9 million during the period under review. Such decrease was mainly attributable to the net effect of (i) the decrease in sales volume of the Group's apple juice concentrate and, in turn, the decrease in freight charges. and (ii) the increase in distribution channels in wholesale markets for the sale of apples and other fruits.

Administrative expenses increased by approximately 10.8% to approximately RMB126.4 million during the period under review. The increase in administrative expenses was mainly attributable to the increase in the number of fruit agriculture bases resulting in increasing staff cost and other costs.

Management Discussion and Analysis

Finance costs of the Group amounted to approximately RMB73.6 million in the period under review, representing an increase of approximately 24.6% over the same period of last year. The increase is attributable to the increase in bank and other borrowing balance.

As a result of the foregoing, the Group's unaudited loss attributable to owners of the Company increase from approximately RMB21.4 million to approximately RMB79.9 million, representing an increase of approximately 272.7% over the same period of last year.

Liquidity, financial resources, capital structure and gearing

The treasury policy of the Group is centrally managed and controlled at the corporate level. As at 30 June 2019, the Group's bank and other borrowings, bills payable and lease liabilities amounted to approximately RMB4,600.2 million (as at 31 December 2018: RMB3,295.6 million), among which, approximately RMB2,028.0 million were secured by way of charge on the Group's assets. Approximately RMB2,347.4 million of the sum were due within one year and approximately RMB2,252.8 million of the sum were due within two to five years. Approximately RMB41.8 million of the sum were denominated in US dollars while approximately RMB4,459.9 million were denominated in RMB and approximately RMB98.5 million were denominated in EUR. Approximately RMB4,558.4 million of the sum were fixed-rate borrowings while approximately RMB41.8 million were variable-rate borrowings.

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Bank loans	2,540,555	1,884,000
Other borrowings	459,796	554,199
Loan from government	159,288	71,086
Bills payable	372,505	435,452
Finance lease payables	–	350,872
Lease liabilities	1,068,091	–
	4,600,235	3,295,609

Management Discussion and Analysis

As at 30 June 2019, the cash and bank balances including pledged bank deposits amounted to approximately RMB638.0 million (as at 31 December 2018: RMB657.7 million).

The Group monitors capital using gearing ratio, which is net debt divided by the total equity. Net debt is calculated as bank loans, loan from government, bills payable, other borrowings and lease liabilities less pledged bank deposits and cash and cash equivalents as shown in the consolidated statement of financial position. Total equity comprises all components of equity. The Group aims to maintain the gearing ratio at a reasonable level. At 30 June 2019, the gearing ratio was 211.4%.

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused a significant increase in the Group's net debt and the Group's gearing ratio changed from 144.9% to 192.1% on 1 January 2019 when compared to its position as at 31 December 2018.

Capital commitments

As at 30 June 2019 the Group has approximately RMB371.8 million capital commitments (as at 31 December 2018: RMB340.4 million).

Exposure to fluctuations in exchange rates

US dollar is one of the major settlement currencies for sales of the Group. The fluctuation of the exchange rate of US dollar against RMB during the period under review has no significant impact on the Group's financial position.

Pledge of assets

As at 30 June 2019, the Group pledged property, plant and equipment, bearer plants prepaid lease payments, pledged bank deposits, inventories and value added tax recoverable for security of the Group's borrowings and obligation under finance lease with carrying account of approximately RMB2,028.0 million (as at 31 December 2018: RMB2,144.2 million).

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2019.

Business review

Juice concentrate and by-product processing, food and beverage

In 2018, the Loess Plateau region in China suffered from rarely seen adverse weather conditions which led to the mass decrease in the production of apples in the region, resulting in an increase in the cost of purchasing raw materials for juicing fruits, and with the changes of international market demand, the processing segment has been affected by the pressure on both raw materials and sales, the domestic apple juice production in the first half of 2019 experienced a significant overall decline as compared to the corresponding period of 2018, while exports decreased by two-thirds. The Group companies timely adjusted the procurement plan of raw materials, reduced production and optimised the stock level, so as to actively respond to related risks and reduce losses.

Over the past six months, the Group companies had thorough communication with our customers, while aiming at exploring the potential of foreign markets and simultaneously expanding sales in the domestic market. Under the unfavourable North American export situation, the Group's sales in the regional market of Japan has increased by 47% in the first half of 2019. At the same time, we successfully entered the Indian market and achieved "zero breakthrough", since our export share still ranked in the forefront in the nation, and the Group's sales in the domestic market has also recorded an increase of 50%. Meanwhile, prompted by the changing market environment, the Group continued to increase the sales of multi-category products on top of traditional exports. In the domestic market, the sales volumes of various types of juice products such as apple syrup, hawthorn syrup and white peach juice have increased further. As for the expansion of pectin, aroma and non-mainstream fruit juice market, satisfactory results were achieved.

Regarding end-user products, the Group continued to vigorously promote the sales of "Eden View" high-ended juice drink series in the domestic market. At the same time, it actively promoted the R&D of new products, launching the "Pure Twig Fruit Tea" in March 2019, and steadily promoted the R&D and promotion of products in the end-user market.

Modernised agriculture

After years of development, the Group's modernised agriculture sector has formed a strategic composition which mainly consists of temperate fruit products and tropical fruit products, with the simultaneous development of multiple products such as berries, vegetables and agricultural facilities, forming the modern agricultural development pattern of in-depth integration of the "primary, secondary and tertiary" industries, and the joint promotion of the entire industrial chain.

Fields, nurseries and packing houses compose the three main business segments of temperate fruit business, covering fruits such as apples, kiwi fruits, pears and cherries, etc. As the first half of 2019, the Group had built 49 fields and 9 nurseries, with a total land area of nearly 100,000 mu; 6 controlled atmosphere packing houses with a controlled atmosphere storage capacity of 60,000 tons and a daily packing capacity of 320 tons. 7 registered trademarks were newly added, namely Cherry – Santana, Karina and Regina; Nursery Trees-Haisheng Nursery, Gala Brookfield, Gala Buckeye, Gala Brookfield and Fuji Aztec, 3 new organic certified bases and 2 conversion period bases. At the same time, the temperate fruit business segment took the lead in starting the breeding of independent varieties, carrying out the first stage of cross breeding of hybrid pollination work in the base located at Qianyang County of Baoji City and deepening the construction of apple variety contrast garden with the storage of 132 apple varieties.

The tropical fruit business is another core support of the rapid development of the agricultural planting segment of the Group. As for the first half of 2019, the Group had a high-standard modernised citrus base with a total area of nearly 60,000 mu, and a fruit-hanging area occupying 6,000 mu. In Jingxi, Yilong and Gulin, 3 high-standard virus-free citrus seedling breeding centers were built with a total area of nearly 100,000 square meters and an annual production capacity of about 2.2 million plants. At the same time, the Group introduced 13 virus-free citrus seedling resources from Europe and South America, and introduced 8 avocado varieties and 2 rootstock varieties from the USA and South Africa, as the Group strives to meet various demands of consumers by constantly enriching the planting varieties.

The berries segment continued to advance its operation in 2019. On strawberry planting, we actively communicated with foreign institutions and planned to introduce three patented varieties; the summer strawberry seedlings were gradually transitioned from bare-root seedlings to matrix seedlings, and steadily improved on the basis of existing production; as for winter strawberries, we continued to seek varieties with better growth performance, and increased the investment in facilities and equipment. In terms of blueberry cultivation, the substrate cultivation technology has achieved large-scale production. At the same time, we signed a variety patent licensing agreement with the University of Georgia and FALL GREEK in order to promote the strategic goal of achieving full-year supply of fresh blueberries, and to expand some ten thousand mu of planting bases in Yunnan and Sichuan. On the other hand, the Group is committed to acquiring more knowledge and development techniques of other small fruit categories, and has introduced new varieties such as raspberries, pomegranates and muskmelons as to achieve diversified development of the berries category.

The vegetable segment has gradually refined the market layout during 2018-2019 growing season, constituting a strategic formation with the focus on the bases of Gansu and Shandong in the north and the Yunnan base in the south, combining planting, processing, distribution, sales as a complete industry chain development pattern. While constantly consolidating the cultivation technology of fresh carrot, the vegetable segment has also actively promoted the commercialization of new varieties such as chestnut sweet potato, kabocha squash and sweet corn etc., as to indicate that the Group has mastered the core technology in the vegetable business.

The agricultural facilities segment has steadily advanced on the basis of the development over the past three years, and achieved remarkable results in various tasks. In terms of high-end greenhouse construction and operation, the business unit has an operating greenhouse area of 200,000 square meters. Currently it has a project of 500,000 square meters under construction and another around 700,000 square meters under planning. In terms of production management, the facilities division continued to explore and implement the high-efficiency and low-cost aquifer energy solution, and continuously strengthened the learning of new varieties such as candy tomato, coloured pepper, hydroponic lettuce and introduction of high-quality varieties, as to promote the Group's rapid development of domestic agricultural facilities and lead the development of agricultural facilities industry in the PRC.

Management Discussion and Analysis

The Group's agricultural tourism segment continues to rely on Haisheng's world-leading modern agricultural production technology and unique modern agricultural landscape to develop fun tour projects integrating sight-seeing and fruit picking, industrial tourism and science research. Among them, the berry planet project will apply for election of the "First Shaanxi Primary and Secondary School Students' Study and Practice Educational Activity Course" in 2019. Haisheng Agricultural Tourism strives to become the benchmark for agricultural tourism in the northwest region.

As for the marketing of fresh food products, the Group has made unprecedented progress in brand building, sales planning and pipeline development. In terms of brand building, the Group has established the brand of the Group in the market through brand marketing, exhibition promotion, internet marketing, media promotion, etc., and plans to implement the four major themed marketing activities of "Pure Time Energy Festival, Summer Chill Party, Autumn Nourishing Season, Spring Festival Shopping Feast", as to create brand value and enhance brand awareness. In terms of sales planning, marketing of fresh food products division has subdivided the sales structure of 7+ regions and e-commerce, while segmenting central China and major districts in the Northeast Region to make the national network more all-rounded and complete. In addition, on the basis of regional sales in the country, we will establish a sales system for major customers, and manage the channels of major customers across the country. Through headquarters management and regional management, we will develop a comprehensive and complete sales system through online and offline integration. In terms of customer development, the marketing of fresh food products division has gradually formed a nationwide customer supply service for major customers, regional chains, distributors, e-commerce, convenience stores and other sales channels, and vigorously explored diversified customer resources.

Prospect

Looking into the future, the Group will further optimise the procurement pipeline in the main processing segment, improve the quality of acquisition, ensure the completion of the production target of the new crop season juice production, and continue to exert efforts in pipeline construction to transform its excellent production capacity into supply capacity. It will continue to expand its market share and enhance brand awareness and reputation. At the same time, we will vigorously promote the development of the modernised agricultural segment, strengthen the R&D work and technology introduction and the domestic sales, enhance the profitability of the agricultural sector, and create new sources of growth for the Group.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil).

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the six months ended at 30 June 2019.

Directors' and Chief Executive's Interests and Short Position in Shares and Underlying Shares

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register 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 for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules, were as follows:

Other Information

Long position

Name	Name of the company	Capacity	Number and class of securities directly or indirectly held	Approximate percentage of shareholding (Note 3)
Mr. Gao Liang	The Company	Beneficial owner	8,600,000 Shares	0.67%
		Interest of controlled corporation	459,061,238 Shares ^(Note 1)	35.59%
		Interest of spouse	4,724,660 Shares ^(Note 2)	0.37%
			472,385,898 Shares	36.63%
Mr. Ding Li	The Company	Beneficial owner	972,000 Shares ^(Note 3)	0.08%

Notes:

- As at 30 June 2019, the 459,061,238 Shares were held by Think Honour International Limited (“Think Honour”), the entire issued share capital of which was held by Mr. Gao Liang. Accordingly, Mr. Gao Liang was deemed to be interested in the 459,061,238 Shares held by Think Honour by virtue of the SFO.
- As at 30 June 2019, the 4,724,660 shares were held by Ms. Xie Haiyan who is the spouse of Mr. Gao Liang. Accordingly, Mr. Gao Liang was deemed to be interested in the 4,724,660 Shares held by Ms. Xie Haiyan.
- The percentage was compiled based on the total number of issued shares of the Company as at 30 June 2019 (i.e. 1,289,788,000 ordinary shares).

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporation that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Person's Interests in Shares and Underlying Shares

As at 30 June 2019, the interests and short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Name of the company	Capacity	Number and class of securities directly or indirectly held	Approximate percentage of shareholding (Note 4)
Ms. Xie Haiyan	The Company	Interest of spouse	467,661,238 Shares ^(Note 1)	36.26%
			Beneficial owner	4,724,660 Shares ^(Note 2)
			472,385,898 Shares	36.63%
Think Honour	The Company	Beneficial owner	459,061,238 Shares ^(Note 2)	35.59%
Tiandi Yihao Beverage Co., Ltd.	The Company	Interest of controlled corporation	227,996,000 Shares ^(Note 3)	17.68%
Shenzhen Tiandi Win-Win Investment Management Co., Limited	The Company	Interest of controlled corporation	227,996,000 Shares ^(Note 3)	17.68%
Tiandi Win-Win Investment Management Co., Limited	The Company	Beneficial owner	227,996,000 Shares ^(Note 3)	17.68%

Other Information

Notes:

1. Ms. Xie Haiyan is the spouse of Mr. Gao Liang. Ms. Xie Haiyan is deemed to be interested in the 467,661,238 shares in which Mr. Gao Liang is deemed to be interested by virtue of the SFO.
2. The entire issued share capital of Think Honour was held by Mr. Gao Liang.
3. Tiandi Win-Win Investment Management Co., Limited is a wholly-owned subsidiary of Shenzhen Tiandi Win-Win Investment Management Co., Limited which is a wholly-owned subsidiary of Tiandi Yihao Beverage Co., Ltd. Pursuant to the SFO, Shenzhen Tiandi Win-Win Investment Management Co., Limited and Tiandi Yihao Beverage Co., Ltd. are deemed to be interested in the 227,996,000 Shares held by Tiandi Win-Win Investment Management Co., Limited.
4. The percentage was compiled based on the total number of issued shares of the Company as at 30 June 2019 (i.e. 1,289,788,000 ordinary shares).

Save as disclosed above, as at 30 June 2019, the Directors or chief executive of the Company were not aware of any other person or parties having an interest and/or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Corporate Governance Practices

During the six months ended 30 June 2019, The Company has complied, saved for the deviations discussed below, with the principles and provisions as set out in the code provisions contained in the Corporate Governance Code (which is set out in the Appendix 14 of the Listing Rules) by establishing formal and transparent procedures to protect and maximise the interests of shareholders of the Company during the period under review.

Code Provision A.2.1 providing for the roles of the chairman and chief executive officer (or chief executive) to be performed by different individuals (the “First Deviation”). At present, the Company does not have a competent candidate for the position of chief executive officer. Mr. Gao Liang, therefore, acts as the chairman and chief executive officer of the Company. Code Provision A.6.7 (the “Second Deviation”) providing for the independent non-executive directors (“INED(s)”) of the Company, inter alia, attend general meetings. Code Provision E.1.2 (the “Third Deviation”) providing for the chairman of the board (the “Chairman”) to attend the annual general meeting of the Company (the “AGM”) and to invite the chairman of audit, remuneration and nomination committees to attend. Regarding the Second Deviation and the Third Deviation, the Chairman and two INEDs, namely Mr. Zhao Boxiang (chairman of remuneration committee) and Mr. Chang Xiaobo (chairman of audit committee), were absent from the last annual general meeting of the Company held on 28 May 2019 due to their other important engagements at the relevant time.

Compliance of the Model Code for Securities

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the review period.

Directors’ Interests in a Competing Business

None of the Directors or their respective associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Review of Results

The unaudited interim results for the six months ended 30 June 2019 was reviewed by the audit committee of the Company.

By order of the Board
China Haisheng Juice Holding Co., Ltd
Mr. Gao Liang
Chairman

Xi’an, the People’s Republic of China, 30 August, 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

		(Unaudited)	
		Six months ended 30 June	
	NOTES	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue	4	503,412	814,138
Cost of sales		(363,684)	(670,605)
Gross profit		139,728	143,533
Other income		111,461	98,161
Other gains and losses		5,357	53,616
Distribution and selling expenses		(129,866)	(143,851)
Administrative expenses		(126,364)	(114,086)
Other operating expenses		(2,945)	(1,134)
Finance costs		(73,595)	(59,078)
Share of results of an associate		(226)	(1,209)
Loss before taxation		(76,452)	(24,048)
Taxation	6	(4,187)	(8,930)
Loss for the period	7	(80,639)	(32,978)
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		(94)	227
Other comprehensive income/(expense) for the period		(94)	227
Total comprehensive expense for the period		(80,733)	(32,751)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

		(Unaudited)	
		Six months ended 30 June	
		2019	2018
	NOTES	<i>RMB'000</i>	<i>RMB'000</i>
<hr/>			
Loss for the period attributable to:			
Owners of the Company		(79,922)	(21,445)
Non-controlling interests		(717)	(11,533)
		<hr/>	<hr/>
		(80,639)	(32,978)
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Total comprehensive expense attributable to:			
Owners of the Company		(80,016)	(21,218)
Non-controlling interests		(717)	(11,533)
		<hr/>	<hr/>
		(80,733)	(32,751)
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Dividends	8	–	–
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Loss per share (RMB cents)			
Basic	9	(6.20)cents	(1.66)cents
		<hr/>	<hr/>
Diluted	9	(6.20)cents	(1.66)cents
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Condensed Consolidated Statement of Financial Position

At 30 June 2019

	NOTES	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	3,673,784	3,101,839
Right-of-use assets		1,007,966	–
Prepaid land lease payments		–	154,215
Bearer plants	11	1,215,411	1,130,881
Investment in an associate		7,523	7,749
Biological assets		104,413	119,780
Prepayments for acquisition of bearer plants		16,608	6,293
Deposits for acquisition of property, plant and equipment		30,805	22,406
Total non-current assets		6,056,510	4,543,163
CURRENT ASSETS			
Prepaid land lease payments		–	18,567
Biological assets		42,431	31,842
Inventories	12	686,188	748,092
Trade and other receivables	13	696,430	432,444
Amounts due from related companies		164	164
Pledged bank deposits		261,706	348,629
Bank balances and cash		376,281	309,033
Total current assets		2,063,200	1,888,771
CURRENT LIABILITIES			
Trade and other payables	14	1,429,111	1,089,593
Bills payables		372,505	409,854
Current tax liabilities		277	277
Dividend payable to non-controlling shareholders of a subsidiary		63	63
Bank and other borrowings		1,726,018	1,338,424
Lease liabilities		248,927	–
Finance lease payables		–	171,449
Deferred government grants		17,078	7,409
Total current liabilities		3,793,979	3,017,069

Condensed Consolidated Statement of Financial Position

At 30 June 2019

NOTES	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Net current liabilities	(1,730,779)	(1,128,298)
Total assets less current liabilities	4,325,731	3,414,865
NON-CURRENT LIABILITIES		
Other liabilities	–	47,995
Bills payables	–	25,598
Bank and other borrowings	1,433,619	1,170,861
Lease liabilities	819,164	–
Finance lease payables	–	179,423
Deferred government grants	171,699	143,472
Deferred tax liabilities	26,805	26,805
Total non-current liabilities	2,451,287	1,594,154
NET ASSETS	1,874,444	1,820,711
CAPITAL AND RESERVES		
Equity attributable to owners of the Company		
Share capital	13,296	13,296
Reserves	1,180,730	1,226,968
	1,194,026	1,240,264
Non-controlling interests	680,418	580,447
TOTAL EQUITY	1,874,444	1,820,711

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to Owners of the Company									Non-controlling interests	Total equity
	Share capital	Share premium	Share option reserve	Special reserve	Translation reserve	Statutory surplus reserve	Other reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018 (audited)	13,296	212,838	4,352	258,722	(622)	196,683	(16,488)	488,413	1,157,194	353,403	1,510,597
Adjustment on initial application of IFRS 9 (audited)	-	-	-	-	-	-	-	(109)	(109)	-	(109)
Restated balance at 1 January 2018 (audited)	13,296	212,838	4,352	258,722	(622)	196,683	(16,488)	488,304	1,157,085	353,403	1,510,488
Loss for the period (unaudited)	-	-	-	-	-	-	-	(21,445)	(21,445)	(11,533)	(32,978)
Exchange differences arising on translation of foreign operations (unaudited)	-	-	-	-	227	-	-	-	227	-	227
Total comprehensive income/ (expense) for the period (unaudited)	-	-	-	-	227	-	-	(21,445)	(21,218)	(11,533)	(32,751)
Contribution from minority shareholder of subsidiaries (unaudited)	-	-	-	-	-	-	-	-	-	117,810	117,810
Appropriated from accumulated profits (unaudited)	-	-	-	-	-	5,900	-	(5,900)	-	-	-
At 30 June 2018 (unaudited)	13,296	212,838	4,352	258,722	(395)	202,583	(16,488)	460,959	1,135,867	459,680	1,595,547

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to Owners of the Company										Non- controlling interests	Total equity
	Share capital	Share premium	Share option reserve	Special reserve	Translation reserve	Statutory surplus reserve	Other reserve	Retained profits	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2019 (audited)	13,296	212,838	-	258,722	(191)	220,098	(13,426)	548,927	1,240,264	580,447	1,820,711	
Loss for the period (unaudited)	-	-	-	-	-	-	-	(79,922)	(79,922)	(717)	(80,639)	
Exchange differences arising on translation of foreign operations (unaudited)	-	-	-	-	(94)	-	-	-	(94)	-	(94)	
Total comprehensive income/ (expense) for the period (unaudited)	-	-	-	-	(94)	-	-	(79,922)	(80,016)	(717)	(80,733)	
Contribution from minority shareholder of subsidiaries (unaudited)	-	-	-	-	-	-	-	-	-	100,688	100,688	
Change in ownership interest in subsidiaries without loss of control (unaudited)	-	-	-	-	-	-	33,778	-	33,778	-	33,778	
Appropriated from accumulated profits (unaudited)	-	-	-	-	-	-	-	-	-	-	-	
At 30 June 2019 (unaudited)	13,296	212,838	-	258,722	(285)	220,098	20,352	469,005	1,194,026	680,418	1,874,444	

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	(Unaudited)	
	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	187,943	457,608
Net cash used in investing activities		
Purchases of property, plant and equipment	(636,550)	(361,891)
Purchases of bearer plants	(108,313)	(139,254)
Purchases of prepaid land lease payments	–	(29,530)
Decrease/(increase) in pledged bank deposits	86,923	(79,347)
Other investing activities	4,008	739
	(653,932)	(609,283)
Net cash generated from financing activities		
New bank and other borrowings raised	1,627,018	1,041,986
Repayment of bank and other borrowings	(976,666)	(926,366)
Payments of lease liabilities	(216,540)	–
Capital contributions from non-controlling interests	134,466	117,810
Other financing activities	(35,041)	16,876
	533,237	250,306
Increase in cash and cash equivalents	67,248	98,631
Cash and cash equivalent at 1 January	309,033	167,560
Cash and cash equivalent at 30 June, representing bank balances and cash	376,281	266,191

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands and its principal place of business in Hong Kong is located at Room B, 3/F., Eton Building, 288 Des Voeux Road Central, Hong Kong.

The Company is an investment holding company while its subsidiaries are principally engaged in (i) the manufacture and sale of fruit juice concentrate and related products and (ii) plantation and sale of apples, apple saplings and other fruits.

The Group’s principal operations are conducted in the People’s Republic of China (the “PRC”). The condensed consolidated interim financial statements are presented in Chinese Renminbi (“RMB”), which is also the functional currency of the Company.

2. PREPARATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

a) Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rule”) and with International Accounting Standard 34 (IAS 34) “Interim Financial Reporting”.

b) Going concern

As at 30 June 2019, the Group had net current liabilities of RMB1,730,779,000. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in normal course of business.

Notes to the Condensed Interim Consolidated Financial Information

For the six months ended 30 June 2019

The Group continues to adopt the going concern basis in preparing its consolidated financial statements. The Group meets its day-to-day working capital requirements through its bank facilities. Most of bank borrowings as at 30 June 2019 that are repayable within the next 12 months are subject to renewal and the directors are confident that these borrowings can be renewed upon expiration based on the Group's past experience and credit history.

The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance for the foreseeable future. In order to strengthen the Group's liquidity in the foreseeable future, the Group has taken the following measures:

- i. negotiating with banks in advance for renewal and obtaining new banking facilities;
- ii. the directors of the Company have been taking various cost control measures to tighten the costs of operations; and
- iii. the Group has been implementing various strategies to enhance the Group's revenue and profitability.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the financial year ended 31 December 2018, except for the adoption of the standards, amendments and interpretations issued by the IASB mandatory for annual periods beginning 1 January 2019.

Application of new and revised international financial reporting standards

The Group has adopted IFRS 16 Leases from 1 January 2019 and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- right-of-use assets – increase by RMB984,423 thousand,
- prepaid land lease payments – decrease by RMB172,782 thousand,
- finance lease payables – decrease by RMB350,872 thousand,
- other liabilities – decrease by RMB47,995 thousand,
- lease liabilities – increase by RMB1,210,508 thousand.

There was no impact on retained profits on 1 January 2019.

Notes to the Condensed Interim Consolidated Financial Information

For the six months ended 30 June 2019

4. REVENUE

The following is analysis of the Group's revenue for the six months ended 30 June 2019:

	Revenue from external customers (Unaudited)	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Sale of fruit juice concentrate and related products	300,750	747,320
Sale of apples, apple saplings and other fruits	202,662	66,818
	503,412	814,138

5. SEGMENT INFORMATION

The Group has two operating segments as follows:

Fruit juice operation – Manufacture and sale of fruit juice concentrate and related products

Agriculture operation – Plantation and sale of apples, apple saplings and other fruits

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profits or losses do not include other income, share of loss of an associate, unallocated other gains and losses, administrative expenses, finance costs and income tax expense.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Notes to the Condensed Interim Consolidated Financial Information

For the six months ended 30 June 2019

Information about operating segment profit or loss:

	Fruit juice operation		Agriculture operation		Total	
	(Unaudited)		(Unaudited)		(Unaudited)	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue						
Revenue from external customers	300,750	747,320	202,662	66,818	503,412	814,138
Intersegment revenue			260	518	260	518
Reportable segment revenue	300,750	747,320	202,922	67,336	503,672	814,656
Less: intersegment revenue					(260)	(518)
Consolidated revenue					503,412	814,138
Segment results	(28,213)	25,849	(64,427)	(58,484)	(92,640)	(32,635)
Other income					111,461	98,161
Share of loss of an associate					(226)	(1,209)
Unallocated amounts:						
Other gains and losses					(12)	-
Administrative expenses					(21,440)	(29,287)
Finance costs					(73,595)	(59,078)
Consolidated loss before tax					(76,452)	(24,048)

Notes to the Condensed Interim Consolidated Financial Information

For the six months ended 30 June 2019

Geographical information:

The Group's operations are mainly located in the PRC.

The Group's revenue from external customers by location of customers and information about its non-current assets by location of assets are detailed below:

	Revenue from external customers		Non-current assets	
	(Unaudited)		(Unaudited)	(Audited)
	Six months ended 30 June		30 June	31 December
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
United States of America (the "USA")	40,720	309,440	144	177
Canada	2,817	66,398	-	-
PRC	345,935	230,895	6,056,366	4,542,986
South Africa	5,743	31,529	-	-
Saudi Arabia	8,716	4,515	-	-
Japan	59,100	40,325	-	-
Australia	11,068	22,389	-	-
Russia	14,223	64,778	-	-
Others	15,091	43,869	-	-
	503,412	814,138	6,056,510	4,543,163

Information about major products:

	(Unaudited)	
	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Apple juice	165,240	573,309
Other juice	135,510	137,337
Fresh fruits	141,496	66,818
Apple saplings	46,800	–
Others	14,366	36,674
	503,412	814,138

Information of assets and liabilities for operating segments are not provided to the Company's directors, being the chief operating decision maker, for their review. Therefore, no analysis of the Group's assets and liabilities by operating segments are presented.

Notes to the Condensed Interim Consolidated Financial Information

For the six months ended 30 June 2019

6. INCOME TAX EXPENSE

	(Unaudited)	
	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
PRC Enterprise Income tax ("EIT")	3,608	8,637
Other jurisdiction	579	293
	4,187	8,930
Deferred tax	–	–
	4,187	8,930

The Company is not subject to taxation in the Cayman Islands, which does not levy tax on the income of the Company. No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Pursuant to the relevant regulations applicable to enterprises situated in the western regions of the PRC, the PRC subsidiaries enjoy a preferential tax rate of 15% for 2017 and 2018. The PRC subsidiaries need to apply for the preferential tax rate every year. The PRC subsidiaries will need to apply for the preferential tax rate for 2019.

According to relevant EIT Law and Implementation Regulation of the EIT Law, certain subsidiaries in fruit juice operation of the Group in the PRC are exempted from EIT on profits derived from preliminary processing of agriculture products for the years ended 31 December 2017 and 2018, subject to annual review by the local PRC tax authority of the Company's subsidiaries and any future changes in the relevant tax exemption policies or regulations. The PRC subsidiaries will need to apply for the exemption of EIT for 2019.

According to relevant EIT Law and Implementation Regulation of the EIT Law, certain subsidiaries in agriculture operation of the Group in the PRC are exempted from EIT on profits derived from fruits cultivation for the years ended 31 December 2017 and 2018, subject to annual review by the local PRC tax authority of the Company's subsidiaries and any future changes in the relevant tax exemption policies or regulations. The PRC subsidiaries will need to apply for the exemption of EIT for 2019.

A subsidiary of the Company, Haisheng International Inc., is a limited liability company incorporated in the USA on 21 January 2005 and is subject to corporate and federal tax at progressive rates from 15% to 35%.

Notes to the Condensed Interim Consolidated Financial Information

For the six months ended 30 June 2019

7. LOSS FOR THE PERIOD

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

	(Unaudited)	
	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Directors' emoluments	1,248	1,185
Salaries, wages and other benefits	140,676	145,555
Retirement benefits scheme contributions	15,883	19,771
Share-based payment expenses	–	–
Total staff costs	157,807	166,511
Less: staff costs capitalised into inventories	(20,053)	(20,442)
Less: staff cost capitalised into cost of bearer plant	(33,750)	(23,133)
	104,004	122,936
Amortisation of prepaid land lease payments	–	54,047
Less: amount capitalised into cost of bearer plants/biological assets	–	(51,869)
	–	2,178
Amortisation of right-of-use assets	8,414	–
Less: amount capitalised into cost of bearer plants/biological assets	(6,268)	–
	2,146	–
Depreciation of property, plant and equipment		
– owned assets	62,932	39,908
– assets under finance lease	–	9,854
	62,932	49,762
Less: amount capitalised into cost of bearer plants	(22,902)	(14,981)
	40,030	34,781
Operating lease charges for land and buildings	2,099	3,541
Depreciation of bearer plants	1,262	1,257
Cost of inventories sold	363,684	670,605
Loss on disposals of property, plant and equipment	1,170	137

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil).

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following:

	(Unaudited)	
	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Loss		
Loss for the purpose of calculating basic and diluted loss per share	(79,922)	(21,445)

Number of shares

	Six months ended 30 June	
	2019	2018
Weighted average number of ordinary shares for the purpose of basic loss per share	1,289,788,000	1,289,788,000
Effect of dilutive potential ordinary shares arising from share options issued by the Company	–	–
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	1,289,788,000	1,289,788,000

Notes to the Condensed Interim Consolidated Financial Information

For the six months ended 30 June 2019

10. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group incurred approximately RMB628,151,000 on acquisition of property, plant and equipment.

11. BEARER PLANTS

During the period under review, the Group incurred approximately RMB134,414,000 on acquisition of bearer plants.

12. INVENTORIES

	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
Raw materials and consumables	182,041	172,613
Work in progress	88,312	149,579
Finished goods	415,835	425,900
	686,188	748,092

13. TRADE AND OTHER RECEIVABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade receivables	189,286	231,810
Less: allowance for doubtful debts	(6,473)	(6,473)
	182,813	225,337
Bills receivable	5,162	10,176
Value added tax recoverable and other tax recoverable	40,866	44,214
Receivable from disposal of saplings	10,145	5,891
Advances to suppliers	327,253	17,133
Other receivables, deposits and prepayments	130,191	129,693
	696,430	432,444

Note: As at 30 June 2019, value added tax recoverable and deposit and other receivables of RMB821,000 (31 December 2018: RMB2,110,000) and RMB1,059,000 (31 December 2018: RMB7,985,000) were pledged as securities for lease liabilities and bank and other borrowings respectively.

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

Notes to the Condensed Interim Consolidated Financial Information

For the six months ended 30 June 2019

The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
0 to 90 days	142,399	148,911
91 to 180 days	22,063	63,818
181 to 365 days	14,904	5,891
Over 1 year	3,447	6,717
	182,813	225,337

14. TRADE AND OTHER PAYABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade payables	633,604	652,476
Payable for acquisition of property, plant and equipment	203,158	174,116
Advances from customers	117,047	64,451
Accrued salaries	45,090	26,012
Accrued interest	24,858	7,850
Value added tax and other tax payables	4,635	7,691
Other liabilities	–	47,995
Other payables and accruals	400,718	156,997
	1,429,111	1,137,588
Less: other liabilities – non-current portion	–	(47,995)
	1,429,111	1,089,593

Notes to the Condensed Interim Consolidated Financial Information

For the six months ended 30 June 2019

The Group is allowed a credit period ranged from 90 to 180 days from its suppliers. The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
0 to 90 days	230,614	384,638
91 to 180 days	130,283	114,322
181 to 365 days	228,963	106,151
Over 1 year	43,744	47,365
	633,604	652,476

15. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Property, plant and equipment	332,844	310,496
Bearer plants	9,509	507
Capital contribution to an associate	29,400	29,400
	371,753	340,403