



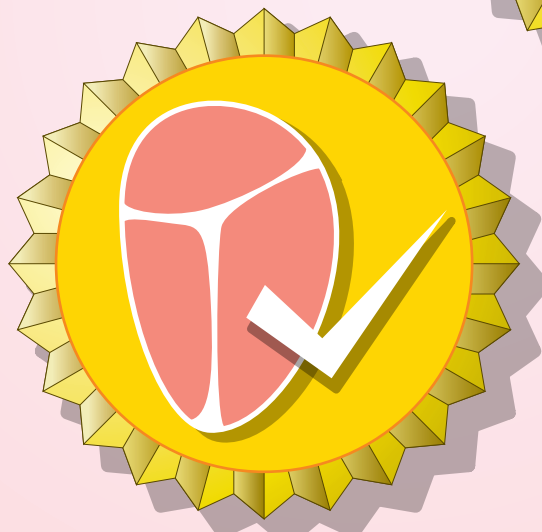
CHINA PUTIAN FOOD HOLDING LIMITED

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



2019

INTERIM REPORT

中期報告





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



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CORPORATE INFORMATION

Directors

Executive Directors

Mr. Cai Chenyang (*Chairman and Chief Executive Officer*)
Mr. Cai Haifang
Ms. Ma Yilin

Non-Executive Directors

Mr. Cheng Lian (Appointed on 5 July 2019)
Mr. Cai Zhiwei (Appointed on 5 July 2019)

Independent Non-Executive Directors

Mr. Xue Chaochao (Appointed on 5 July 2019)
Mr. Cai Zirong
Mr. Wang Aiguo

Audit Committee

Mr. Xue Chaochao (*Committee Chairman*)
Mr. Cai Zirong
Mr. Wang Aiguo

Remuneration Committee

Mr. Cai Zirong (*Committee Chairman*)
Mr. Xue ChaoChao
Mr. Wang Aiguo

Nomination Committee

Mr. Wang Aiguo (*Committee Chairman*)
Mr. Xue ChaoChao
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 Bankers

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

Registered Office

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

Principal Place of Business in Hong Kong

No. 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

Codan 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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Company Website

www.putian.com.hk

Stock Code

1699

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

After the hog-breeding industry was seriously impacted by the African Swine Fever virus in the second half of 2018, the prevailing market conditions were beneficial to large-scale breeding enterprises for consolidation and development. For the six months ended 30 June 2019 (the “Reviewed Period”), China Putian Food Holding Limited (the “Company”) and its subsidiaries (collectively the “Group”) recorded revenue of approximately RMB334,097,000, representing an increase of approximately 20.8% as compared with the six months ended 30 June 2018 (the “Corresponding Period”); the overall gross profit of the Group was approximately RMB48,637,000, representing an increase of approximately 10.2% as compared with the Corresponding Period; the net profit recorded during the Reviewed Period was approximately RMB37,420,000, whilst the net loss for the Corresponding Period was RMB20,065,000. The increase in revenue was mainly attributable to the facts that the economic growth in China was generally maintained at a sound level, the drop in hog stock facing the hog industry had created consolidation opportunity for large-scale breeding enterprises and that the Group’s business condition was improved as the Group strengthened the development of wholesale business under favorable industry conditions.

During the Reviewed Period, the Group continued to intensify the regulation and management of breeding farms. As a result, a total output of 126,416 white hogs was recorded in the Reviewed Period, representing an increase as compared with the corresponding period of last year. For black hogs, all the farms located in Hebei Province and Fujian Province were put on the right track. In particular, 3,789 black hogs were moved out of the curtain-barns in the black hog farm in Xuanhua City, Hebei Province in the Reviewed Period, which was slightly higher than the Corresponding Period, with a current capacity utilization rate of 30.5%; and 8,075 black hogs were moved out of the curtain-barns in the Shiti (石梯) and Xianglixiang (鄉里香) farms in Putian City, Fujian Province in the Reviewed Period, which was also higher than that of the corresponding period of last year, with a current capacity utilization rate of 48.0%. At present, the Group is striving to improve the capacity utilization rate of black hog breeding bases due to the long breeding cycle of black hog.

During the Reviewed Period, the Company had achieved satisfactory sales performance by adopting the policy of steadily improving the established sales channels, while expanding the wholesale channel in light of market conditions. The Group continued to adopt its development strategy of “White to Black” and focused on the promotion of the high-end brand “Putian Black Pearl”, with its penetration in the market being further enhanced. Among the products of “Putian Black Pearl”, most sales were contributed by Fujian Province and Beijing City, representing 27% of the Group’s total revenue.

Financial Review

1. Revenue

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

Revenue	Six months ended 30 June			
	2019		2018	
	RMB'000 (unaudited)	Percentage of total revenue (%)	RMB'000 (unaudited)	Percentage of total revenue (%)
Retail of pork	172,977	51.8	165,472	59.9
Wholesale of pork	144,737	43.3	91,778	33.2
Retail of frozen pork	10,979	3.3	14,412	5.2
Wholesale of commodity hog	5,404	1.6	4,825	1.7
	334,097	100.0	276,487	100.0

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

The total unaudited revenue of the Group increased from approximately RMB276,487,000 for the Corresponding Period to approximately RMB334,097,000 for the Reviewed Period, resulting in an increase in total revenue of approximately 20.8% as compared with the Corresponding Period, which was mainly attributable to the fact that the wholesale business had experienced substantial increase because the Group had made timely adjustment to marketing strategies in view of the situation in hog industry in the Reviewed Period.

Revenue from Retail of Pork

The Group's unaudited revenue from retail of pork increased from approximately RMB165,472,000 for the Corresponding Period to approximately RMB172,977,000 for the Reviewed Period, representing an increase of approximately 4.5%, which was mainly attributable to the general consumption sentiment and the overall performance of pork retailing market in China for the Reviewed Period. The Group continued to expand its sales network with a view to increasing the market share of pork retailing in the target markets. During the Reviewed Period, the Group newly added sales channels in total of 8 supermarkets. The new supermarkets are located in Beijing City and Fujian Province; six of them are located in Beijing City and two are located in Fujian Province. Moreover, the Group actively developed its online business as well. During the Reviewed Period, new e-commerce channels were established for fresh food, as Miss Fresh (每日優鮮). Through internet advertising campaigns and favorable recommendations among customers, "Putian" brand has gradually gained recognition of being reliable and savory, particularly from high-spending customers, who are highly concerned with their living standards. The management of the Company expects that the revenue from retail of pork will be able to further increase by leveraging further expansion of the distribution networks of "Putian" brand.

Revenue from Wholesale of Pork

The Group's unaudited revenue from wholesale of pork increased from approximately RMB91,778,000 for the Corresponding Period to approximately RMB144,737,000 for the Reviewed Period, representing a increase of approximately 57.7%, which was primarily due to the fact that the Group had obtained satisfactory performance by making adjustment to marketing strategies in light of the price of hogs in prevailing market for the Reviewed Period and promoting the wholesale business of pork.

Revenue from Retail of Frozen Pork

The Group's unaudited revenue from retail of frozen pork decreased from approximately RMB14,412,000 for the Corresponding Period to approximately RMB10,979,000 for the Reviewed Period, representing an decrease of approximately 23.8%, which was mainly attributable to the fact that the Group had made adjustment to marketing strategies in light of the price of hogs in prevailing market for the Reviewed Period.

Revenue from Wholesale of Commodity Hogs

The Group's unaudited revenue from wholesale of commodity hogs increased from approximately RMB4,825,000 for the Corresponding Period to approximately RMB5,404,000 for the Reviewed Period, representing an increase of approximately 12.0%, and accounting for approximately 1.6% of the total revenue for the Reviewed Period. Such increase was mainly attributable to diversified sales channels thereby increasing sales of commodity hogs.

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

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

2. Gross Profit and Gross Profit Margin

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

	Six months ended 30 June			
	2019		2018	
	RMB'000 (unaudited)	Gross profit margin (%)	RMB'000 (unaudited)	Gross profit margin (%)
Gross profit and gross profit margin				
Retail of pork	27,544	15.9	29,175	17.6
Wholesale of pork	18,367	12.7	13,519	14.7
Retail of frozen pork	1,276	11.6	646	4.5
Wholesale of commodity hog	1,450	26.8	814	16.9
	48,637	14.6	44,154	16.0

The overall unaudited gross profit of the Group increased from approximately RMB44,154,000 for the Corresponding Period to approximately RMB48,637,000 for the Reviewed Period. The overall gross profit margin of the Group decreased from 16.0% for the Corresponding Period to approximately 14.6% for the Reviewed Period. The decrease in gross profit margin was attributable to the increase of the feeding cost and the effect of the suspend operations and sales during the surveillance period, which sustains for 6 weeks during November 2018 and December 2018 in Putian City. The increase in gross profit was attributable to the increase of the selling quantity and the fact that drop in hog stock facing the hog industry had created consolidation and development opportunities for the Group and the Group had made good achievement by intensifying the development of wholesale and distribution businesses during the Reviewed Period.

Gross Profit and Gross Profit Margin for the Retail of Pork

The gross profit from the retail of pork decreased from approximately RMB29,175,000 for the Corresponding Period to approximately RMB27,544,000 for the Reviewed Period. The gross profit margin for the retail of pork dropped from approximately 17.6% for the Corresponding Period to approximately 15.9% for the Reviewed Period. For the Reviewed Period, the gross profit and gross profit margin for this segment dropped due to increase of the feeding cost and the effect of the suspend operations and sales during the surveillance period, which sustains for 6 weeks during November 2018 and December 2018 in Putian City.

Gross Profit and Gross Profit Margin for the Wholesale of Pork

The gross profit from the wholesale of pork increased from approximately RMB13,519,000 for the Corresponding Period to approximately RMB18,367,000 for the Reviewed Period. The gross profit margin for the wholesale of pork dropped from approximately 14.7% for the Corresponding Period to approximately 12.7% for the Reviewed Period. The decrease in gross profit margin was attributable to the increase of the feeding cost and the effect of the suspend operations and sales during the surveillance period, which sustains for 6 weeks during November 2018 and December 2018 in Putian City. The increase in gross profit was attributable to the increase of the selling quantity and the fact that drop in hog stock facing the hog industry had created consolidation and development opportunities for the Group and the Group had made good achievement by intensifying the development of wholesale and distribution businesses during the reporting period.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

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

The gross profit from the retail of frozen pork increased from approximately RMB646,000 for the Corresponding Period to approximately RMB1,276,000 for the Reviewed Period. The gross profit margin for the retail of frozen pork increased from approximately 4.5% for the Corresponding Period to approximately 11.6% for the Reviewed Period. The increase in gross profit for this segment was mainly due to the fact that the Group had made adjustment to marketing strategies in light of the price of hogs in prevailing market for the Reviewed Period.

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

The gross profit from the wholesale of commodity hogs increased from approximately RMB814,000 for the Corresponding Period to approximately RMB1,450,000 for the Reviewed Period. The gross profit margin for the wholesale of commodity hogs increased from approximately 16.9% for the Corresponding Period to approximately 26.8% for the Reviewed Period. The increase in gross profit margin for the wholesale of commodity hogs was mainly due to the diversified sales channels thereby increasing sales of commodity hogs.

3. Profit for the six months ended 30 June 2019

For the Reviewed Period, the Group recorded a gain of approximately RMB37,420,000 (for the Corresponding Period, there was a loss of approximately RMB20,065,000), which was mainly due to (i) an increase in gross profit of approximately RMB4,483,000 mainly due to the increase of the selling quantity; (ii) the gain arising from change in fair value less costs to sell of biological assets of approximately RMB20,082,000, as compared with a loss of approximately RMB18,891,000 for the Corresponding Period, mainly attributable to the increase of market price of hogs in the PRC during the reporting period; and (iii) the decrease in finance costs of approximately RMB16,277,000 mainly due to the decrease in imputed interest of the convertible bond; even though there were (i) the gain arising from change in fair value change of derivative financial liabilities of approximately RMB8,202,000, as compared with a gain of approximately RMB10,324,000 for the Corresponding Period and (ii) the increase in the administrative expenses from approximately RMB18,561,000 for the Corresponding Period to approximately RMB19,678,000 for the Reviewed Period.

Prospects

1. Improve the brand image of “Putian Black Pearl” in light of the change in national consumption structure

The Group is optimistically confident about the prevailing price of pork in China for the second half of the year 2019, especially the high-end black pork which is increasingly popular among consumers. Taking into consideration of the national's changing appetite that tends to be more and more focused on delicious and healthy products, it is expected that branded and safe pork will dominate the market, and the black pork products will also embrace a promising prospect. In the coming future, the Group will continue to deliver high-end brand image of “Putian Black Pearl” by expanding its sales networks and attaching more importance to promotion through the new channels of e-commerce, community store and family package membership. For retail points, the Group is planning to set up about further 30 retail points in aggregate in Beijing City, with 5 branches in Hualian Supermarket, 5 branches in Wal-mart, 5 branches in Carrefour and 15 branches in Wu Mart.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

2. *Build a comprehensive internet sale model by widening its online-business on an ongoing basis*

As the e-commerce market in China gets more and more established and products structure become increasingly diversified, e-commerce is penetrating into every corner of our life. For example, consumers with higher requirements for products quality tend to take the way of online shopping, which is more convenient to get aware of product backgrounds and compare product prices. Therefore, the Group believes that e-commerce will serve as one of the main sales channels of black pork. The Group will build a comprehensive internet sale model by unremittingly expanding online sales network while vigorously promoting high-end pork products. At present, the Group also carries out cooperation with other well-known e-commerce platforms including Miss Fresh (每日優鮮) except for our self-built Wechat platform, so as to expand the sales network. Delivery for products purchased online is available within Beijing City. In the coming future, the Group will endeavor to build a distribution network to provide convenient shopping experience for consumers in more areas.

3. *Revive the wholesale business of pork by capitalizing on the market condition of hog*

In the first half of 2019, the accelerated concentration of pork industry in China had provided possibility of consolidation for large-scale enterprises with higher brand awareness. In the Reviewed Period, the Group had made adjustment to its business strategy and achieved satisfactory effect by intensifying the development of wholesale business of pork and widening its wholesale channels. Boosted by the remarkable increase in this business segment, the Group's revenue experienced an overall climb. In the second half of this year, the Group will maintain its existing business strategy unchanged, that is to improve the currently available wholesale channels and strive to explore additional business opportunities by capitalizing on the market condition of hog, so as to revive the segment business of pork wholesale.

Liquidity and Financial Resources

Financial Resources

The Group primarily finances the capital required for operations by internally generated cashflow and bank facilities. As at 30 June 2019, cash and bank balances amounted to approximately RMB7,922,000 (31 December 2018: approximately RMB9,091,000).

Borrowings and Pledged Assets

As at 30 June 2019, the total amount of interest-bearing bank borrowings was approximately RMB158,747,000, all of which would be due within one year (31 December 2018: bank borrowings was approximately RMB158,712,000). The total amount of interest-bearing bank borrowings and bank overdrafts were denominated in Renminbi and Hong Kong Dollar respectively, and on a floating interest rate.

As at 30 June 2019, the bank borrowings of approximately RMB149,950,000 was pledged/charge over the Group's property, plant and equipment and land with a total carrying value of approximately RMB81,039,000 (31 December 2018: approximately RMB103,220,000) and was guaranteed by the Company and the director and Chairman of the Board and the substantial shareholder of the Company, Mr. Cai Chenyang.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

Gearing Ratio

As at 30 June 2019, the gearing ratio of the Group was 68.5% (31 December 2018: 73.8%). This was calculated by dividing interest-bearing borrowings, amount due to a shareholder, bank overdrafts, obligation under finance lease and convertible bond with the total equity of the Group as at 30 June 2019.

Foreign Exchange Risk

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

Material Acquisitions and Disposal of Subsidiaries

There was no material acquisition and disposal of subsidiaries or associated companies during the Reviewed Period.

Event After Reviewed Period

Refer to the announcements of the Company dated 12 July 2019 and 17 July 2019 (the "Announcements"), the terms used in this announcement shall have the same meaning as those defined in the Announcements, unless the context otherwise requires.

According to the Announcements, the further extension of the Maturity Date under the Second Written Confirmation would expire on 15 July 2019. As of the date of this announcement, the terms of the Amendment Deed Poll are still under negotiation between the Company and Vandī Investments Limited (the "Investor"). The Company has proposed to the Investor and the Investor is considering, among others, that the Maturity Date shall be further extended to not more than 6 months from 15 July 2019.

The Convertible Bond and Note had been matured according to the Second Written Confirmation from the Investor.

The Company will continue to keep its shareholders and potential investors of the Company updated of any material development of the Convertible Bond and Note as and when appropriate.

Operating Lease Commitments

As at 30 June 2019, the Group had operating lease commitments of approximately RMB15,814,000 (31 December 2018: approximately RMB18,403,000).

Contingent Liabilities

As at 30 June 2019, the Group had no material contingent liabilities (31 December 2018: Nil).

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

Capital Commitments

As at 30 June 2019, the Group had capital commitments of approximately RMB75,781,000 (31 December 2018: approximately RMB75,781,000), which mainly comprised commitments for the construction in process at Hebei Province and Fujian Province.

Human Resources

As at 30 June 2019, the Group had 511 employees. Staff costs, including directors' emoluments, totalled approximately RMB11,748,000 (30 June 2018: approximately RMB18,194,000) during the Reviewed Period. All of the Group's companies are equal-opportunity employers, with the selection and promotion of individuals based on their suitability for the positions offered. The Group operates a defined contribution mandatory provident fund as retirement benefits for its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC.

INTERIM FINANCIAL REPORT

The board of Directors (the “Board”) of China Putian Food Holding Limited (the “Company”) is pleased to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2019 with comparative figures for the corresponding period in 2018. These condensed consolidated interim financial statements have not been audited but have been reviewed by the Audited Committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	4	334,097	276,487
Cost of sales		(285,460)	(232,333)
Gross profit		48,637	44,154
Other income and losses	5	5,456	3,992
Gain/(loss) arising from change in fair value less costs to sell of biological assets	12	20,082	(18,891)
Selling and distribution expenses		(13,608)	(13,135)
Administrative expenses		(19,678)	(18,561)
Finance costs	6	(11,671)	(27,948)
Gain arising from fair value change of derivative financial liabilities		8,202	10,324
Profit/(loss) before taxation		37,420	(20,065)
Taxation	7	—	—
Profit/(loss) for the period	8	37,420	(20,065)
Other comprehensive loss for the period, net of income tax:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		(2,004)	(11,141)
Other comprehensive loss for the period, net of income tax		(2,004)	(11,141)
Total comprehensive income/(loss) for the period		35,416	(31,206)
Profit/(loss) for the period attributable to the owners of the Company		37,420	(20,065)
Total comprehensive income/(loss) for the period attributable to the owners of the Company		35,416	(31,206)
Earning/(loss) per share			
Basic and diluted (RMB cents per share)	10	1.98	(1.25)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	11	559,208	571,644
Prepaid lease payments		74,440	76,629
Biological assets	12	21,089	18,883
Deposits paid for property, plant and equipment		10,000	10,000
		664,737	677,156
Current assets			
Inventories		80,797	68,302
Biological assets	12	151,376	149,262
Trade receivables	13	120,328	100,574
Deposits paid, prepayments and other receivables	14	145,274	125,781
Prepaid lease payments		4,378	4,378
Pledged bank deposits		4,275	4,275
Cash and bank balances		7,922	9,091
		514,350	461,663
Current liabilities			
Trade and bills payables	15	26,361	18,031
Accruals, deposits received and other payables	16	23,221	18,174
Borrowings	18	275,510	275,094
Convertible bonds	19	138,394	137,850
Derivative financial liability	19	502	8,812
Deferred revenue		253	253
		464,241	458,214
Net current assets		50,109	3,449
Total assets less current liabilities		714,846	680,605

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2019

		As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
	<i>Notes</i>		
Non-current liabilities			
Other payable		24,509	24,509
Borrowings	18	5,500	5,500
Obligation under finance lease		18,476	24,293
Amount due to shareholder		9,905	5,136
Deferred revenue		2,300	2,427
		60,690	61,865
Net assets		654,156	618,740
Equity			
Share capital	17	77,894	77,894
Share premium and reserves		576,262	540,846
Total equity		654,156	618,740

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Statutory reserve RMB'000	Share options reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2018 (Audited)	65,178	18,586	(931)	71,506	26,803	53,015	395,953	630,110
Loss for the period	—	—	—	—	—	—	(20,065)	(20,065)
Other comprehensive loss for the period	—	—	(11,141)	—	—	—	—	(11,141)
Total comprehensive loss for the period	—	—	(11,141)	—	—	—	(20,065)	(31,206)
Transfer to statutory reserve	—	—	—	1,951	—	—	(1,951)	—
As at 30 June 2018 (Unaudited)	65,178	18,586	(12,072)	73,457	26,803	53,015	373,937	598,904
As at 1 January 2019 (Audited)	77,894	40,982	(15,011)	74,181	25,026	53,015	362,653	618,740
Profit for the period	—	—	—	—	—	—	37,420	37,420
Other comprehensive loss for the period	—	—	(2,004)	—	—	—	—	(2,004)
Total comprehensive income for the period	—	—	(2,004)	—	—	—	37,420	35,416
Transfer to statutory reserve	—	—	—	1,749	—	—	(1,749)	—
As at 30 June 2019 (Unaudited)	77,894	40,982	(17,015)	75,930	25,026	53,015	398,324	654,156

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Net cash generated from operating activities	9,635	3,515
Investing activities		
Interest received	29	41
Deposits paid for property, plant and equipment	—	726
Proceeds from disposal of property, plant and equipment	30	1,945
Purchase of property, plant and equipment	(3,363)	(9,842)
Net cash used in investing activities	(3,304)	(7,130)
Financing activities		
Interest paid	(5,521)	(8,839)
Proceeds from bank borrowings	140,500	141,344
Repayments of bank borrowings	(140,500)	(125,805)
Repayments of finance lease payable	(5,714)	—
Increase in amount due to a shareholders	4,666	10,228
Decrease in pledged bank deposits	—	15
Net cash (used in)/generated from financing activities	(6,569)	16,943
Net (decrease)/increase in cash and cash equivalents	(238)	13,328
Cash and cash equivalents at beginning of the period	9,091	3,343
Effect of foreign exchange rate changes	(931)	(8,127)
Cash and cash equivalents at end of the period	7,922	8,544
Cash and cash equivalents at end of the period		
Cash and bank balances	7,922	12,639
Bank overdrafts	—	(4,095)
	7,922	8,544

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. Basis of Preparation

The condensed consolidated interim financial information for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). They have been prepared under the historical cost convention, except for financial assets and financial liabilities, which are carried at fair value. The condensed consolidated interim financial information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated interim financial information is unaudited but have been reviewed by the audit committee of the Company.

Going Concern

As at 30 June 2019, the Group’s convertible bonds and non-convertible notes of approximately RMB138,394,000 and RMB96,730,000 respectively were due on 15 July 2019. Further extension of the convertible bonds and non-convertible notes is under negotiation between the Company and the investor. Notwithstanding the above results, the condensed consolidated interim 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 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 a 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 condensed consolidated interim 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 condensed 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 condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. Significant Accounting Policies

This unaudited condensed consolidated interim financial information should be read in conjunction with the consolidated interim financial statements of the Group for the year ended 31 December 2018.

The accounting policies and methods of computation used in the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2019 are the same as those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2018. In the current interim period, the Group has applied, for the first time, certain new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current period.

3. Segment Information

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

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

4. 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:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Recognition at a point of time		
– Retail of pork	172,977	165,472
– Wholesale of pork	144,737	91,778
– Retail of frozen pork	10,979	14,412
– Wholesale of commodity hogs	5,404	4,825
	334,097	276,487

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

5. Other Income and Losses

	Six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Interest income on:		
– bank deposits	29	41
– amortisation of deferred revenue	128	127
Total interest income	157	168
Gain on disposal of hog droppings	85	55
Gain on disposal of biological assets	1,062	2,029
Consultancy fee income	—	600
Government grants (<i>Note</i>)	4,202	1,017
Sundry incomes/(expenses)	60	123
Loss on disposal of property, plant and equipment	(110)	—
	5,456	3,992

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

6. Finance Costs

	Six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Interest on:		
– Borrowings wholly repayable within five years	6,440	8,355
– Bank overdrafts wholly repayable within five years	—	59
– Imputed interest charged on convertible bonds	3,216	18,438
– Finance lease	751	1,096
– Other interest bearing payable wholly repayable within five years	1,264	—
	11,671	27,948

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

7. Taxation

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
– Hong Kong	—	—
– PRC	—	—
Total income tax for the period	—	—

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 profit tax rates 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%.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, 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. Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company, operating in the business of primary processing of agricultural products, were exempted from the PRC EIT during the six months ended 30 June 2018 and 2019.

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.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

8. Profit/(Loss) for the Period

Profit/(loss) for the period has been arrived at after charging:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Staff costs including directors' emoluments		
Salaries and other emoluments	11,251	17,303
Retirement scheme contributions	497	891
Total staff costs	11,748	18,194
Depreciation of property, plant and equipment	15,653	9,651
Amortisation of prepaid lease payments	2,189	2,189
Total depreciation and amortisation	17,842	11,840

9. Dividends

The Directors do not recommend the payment of any dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

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

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings/(loss) attributable to owners of the Company for the purpose of calculating basic earnings/(loss) per share	37,420	(20,065)

	Six months ended 30 June	
	2019	2018
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	1,889,000	1,600,000

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

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

For the six months ended 30 June 2019 and 2018, diluted profit per share is the same as basis per share as there is no potential ordinary share in issue.

11. Movement in Property, Plant and Equipment

During the period, the Group acquired buildings, plant and machinery, office equipment, motor vehicles and construction in progress of approximately RMBNil (2018: RMB4,200,000), RMB126,000 (2018: RMB280,000), RMB6,000 (2018: RMB145,000), RMB3,000 (2018: RMBNil) and RMB3,228,000 (2018: RMB3,271,000) respectively.

12. 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 2018 (Audited)	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 and 1 January 2019 (Audited)	18,883	149,262	168,145
Increase due to purchases	3,373	179,622	182,995
Increase due to raising (Feeding cost and others)	4,604	86,880	91,484
Transfer	(4,838)	4,838	—
Decrease due to retirement and deaths	(64)	(4,619)	(4,683)
Decrease due to sales	(1,086)	(284,472)	(285,558)
Change in fair value less costs to sell	217	19,865	20,082
As at 30 June 2019 (Unaudited)	21,089	151,376	172,465

Note: The Group's biological assets as at 30 June 2019 and 31 December 2018 have been arrived at on the basis of a valuation carried out by Assets Appraisal Limited (the "Valuer"). Given the nature of the biological assets where market determined prices are available, the fair values less costs to sell have been determined by the market approach based on the market-determined prices as at 30 June 2019 and 31 December 2018 adjusted with such attributes as pig breed and stage of growth in the lifecycle. The gain arising from changes in fair value less costs to sell of biological assets of approximately RMB20,082,000 (loss recognised for the Corresponding Period: approximately RMB18,891,000) has been recognised directly in profit or loss for the six months ended 30 June 2019.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

13. Trade Receivables

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Trade receivables	123,643	101,542
Less: Allowance for credit loss	(3,315)	(968)
	120,328	100,574

The fair values of trade receivables approximate their carrying amount.

As at 30 June 2019 and 1 January 2019, there were no trade receivables from contracts with customers.

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 30 June 2019 and 31 December 2018 is as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within 30 days	42,550	22,864
31 to 90 days	62,920	77,834
91 to 180 days	17,886	591
Over 180 days	287	253
	123,643	101,542

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

14. Deposits Paid, Prepayments and Other Receivables

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Advances to staff (Note (a))	3,864	1,116
Other receivables (Note (b))	28,000	28,000
Other deposits paid and prepayments (Note (c))	113,410	96,665
	145,274	125,781

Notes:

- The amount was mainly for the purchase of raw materials and commodity hogs on behalf of the Group.
- The amount was the consideration receivable for disposal of a workshop to a third party on 2 November 2018.
- During the six months ended 30 June 2019, the amount was mainly for the acquisition of breeder hogs and parental breeder hogs of approximately RMB24,399,000 (31 December 2018: approximately RMB51,395,000). During the six months ended 30 June 2019, the deposits paid of approximately RMB38,226,000 (31 December 2018: approximately RMB35,650,000) which mainly related to prepayments paid to an advertisement company for television advertisements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

15. Trade and Bills Payables

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Trade payables	15,961	7,631
Bills payables	10,400	10,400
	26,361	18,031

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

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within 30 days	3,733	2,291
31 to 90 days	4,428	1,392
91 to 180 days	7,800	3,948
	15,961	7,631

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 (2018: 60 days). The bills payables are matured within twelve months (2018: twelve months) from the end of the reporting period.

16. Accruals, Deposits Received and Other Payables

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Deposits received	3,069	1,763
Other payables for property, plant and equipment	1,139	2,002
Accruals and other payables	43,522	38,918
	47,730	42,683
Less: non-current portion — other payable	(24,509)	(24,509)
Accrual, deposit received and other payables — current portion	23,221	18,174

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

17. Share Capital

Ordinary shares

	Number of shares	Nominal value of ordinary shares HK\$'000 (Unaudited)	Total RMB'000 (Unaudited)
Authorised:			
At 1 January and 30 June 2019 ordinary shares of HK\$0.05 each	80,000,000,000	4,000,000	3,240,009
Issued and fully paid:			
At 1 January and 30 June 2019 ordinary shares of HK\$0.05 each	1,889,000,000	94,450	77,894

18. Borrowings

The analysis of the carrying amount of borrowings is as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Borrowings — secured	255,510	255,094
Borrowings — unsecured	25,500	25,500
	281,010	280,594

At 30 June 2019, the borrowings were repayable as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Carrying amount repayable:		
On demand or within one year	275,510	275,094
Over one year	5,500	5,500
	281,010	280,594

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

18. Borrowings (Continued)

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Borrowings at:		
– bank borrowings at floating interest rate	158,747	158,712
– factoring loan at fixed rate	25,500	25,500
– non-convertible note at fixed interest rate	96,763	96,382
	281,010	280,594

The borrowings were denominated in RMB and Hong Kong dollars. The borrowing of approximately RMB105,559,000 was denominated in Hong Kong dollars for the six months ended 30 June 2019. (2018: approximately RMB105,144,000)

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

	As at 30 June 2019 % <th style="text-align: right;">As at 31 December 2018 % </th>	As at 31 December 2018 %
	(Unaudited)	(Audited)
Floating rate	3.22–5.47	3.22–5.47
Fixed rate	6.00–10.00	6.00–10.00

On 28 September 2016, the Company and Vandi Investments Limited (“the Investor”), a limited liability company incorporated in the BVI indirectly and wholly-owned by CCB International (Holdings) Limited and Mr. Cai Chenyang, entered into the subscription agreement (the “Subscription Agreement”) in respect of the issue of the non-convertible note (“Note”) in the principal amount of HK\$110,000,000 equivalent to approximately RMB96,763,000 due 2018 with an annual interest rate of 6.0% payable semi-annually and bear an administrative fee of 2.0% per annum which was deducted as a lump sum from the issue price at the closing of the subscription and issue of the Note on 13 October 2016.

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Note	96,763	96,382

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

18. Borrowings (Continued)

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 12 July 2019, the Company proposed to Note holder to extend the maturity date of the Note for no more than six months from 15 July 2019.

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

As at 30 June 2019, the obligations of the Company in relation to the Note of approximately RMB96,763,000 were secured by, among others, 816,000,000 ordinary shares of the Company by Zhan Rui Investments Limited ("Zhan Rui"), as summarised in the Company's announcement dated 28 September 2016.

19. 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 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 July 2019. On 12 July 2019, the Company proposed to Convertible Bond holder to extend the maturity date of the Convertible Bond for no more than six months from 15 July 2019.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

19. Convertible Bonds/Derivative Financial Liability (Continued)

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:

- the aggregate principal amount of such outstanding Convertible Bond due 2018 held by such bondholder;
- 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
- any accrued but unpaid interest and administrative fee on such outstanding Convertible Bond due 2018.

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

- 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;
- 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.

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 2018	104,763	10,584	115,347
Imputed interest charged	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 and 1 January 2019 (Audited)	137,850	8,812	146,662
Imputed interest charged	—	—	—
Interest paid for the period	—	—	—
Change in fair value of convertible bonds	—	(8,202)	(8,202)
Exchange alignment	544	(108)	436
As at 30 June 2019 (Unaudited)	138,394	502	138,896

Net cash flow for issue/redemption of convertible bonds and non-convertible note is RMB Nil during the year ended 30 June 2019 (2018: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

19. Convertible Bonds/Derivative Financial Liability (Continued)

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 30 June 2019, the obligations of the Company in relation to the Convertible Bond due 2018 of RMB138,896,000 (2018: RMB146,662,000) were secured by, among others, 816,000,000 ordinary shares of the Company by Zhan Rui.

20. Fair Value Measurement of Financial Instrument

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

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

Type	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2019 (RMB'000)	31 December 2018 (RMB'000)		
Biological assets Breeder hogs and commodity hogs	172,465	168,145	Level 2	The fair value less costs to sell of breeder hogs and porkers are determined using market approach with reference to the market determined prices of items with similar age, weight and breeds
Financial liability Derivative financial liability	502	8,812	Level 2	The fair value is determined using Monte Carlo Simulation Model with assumptions with risk free rate, volatility, dividend yield and credit spread keep constant throughout the life of the convertible bond

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

20. Fair Value Measurement of Financial Instrument (Continued)

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

21. Share Option Scheme

Detail of the 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 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. 566,700,000 Shares which represent 30% of the issued share capital as at the date of this report).

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

21. Share Option Scheme (Continued)

Detail of the Share Option Scheme (continued)

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

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

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

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

As at 30 June 2019, the number of shares available for issue under the Share Option Scheme were 99,980,000 ordinary shares, representing approximately 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	Remained price HKD
(1) Granted on 31 March 2015	27,240,000	31/03/2015	31/12/2015	30/03/2025	0.595
(2) Granted on 31 March 2015	35,120,000	31/03/2015	31/12/2016	30/03/2025	0.595
(3) Granted on 31 March 2015	37,620,000	31/03/2015	31/12/2017	30/03/2025	0.595

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

21. Share Option Scheme (Continued)

Detail of the Share Option Scheme (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 2018 ('000)	Lapsed during the year ('000)	Balance as at 31 December 2018 ('000)
Executive Directors					
— Mr. Cai Chenyang	(1) 31 Dec 2015 to 30 Mar 2025	0.595	21,000	—	21,000
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	24,960	—	24,960
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	26,480	—	26,480
— Mr. Cai Haifang	(1) 31 Dec 2015 to 30 Mar 2025	0.595	1,220	—	1,220
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	1,600	—	1,600
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	1,600	—	1,600
Employees of the Group	(1) 31 Dec 2015 to 30 Mar 2025	0.595	6,840	(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

Grantee	Exercisable period	Exercisable price per shares (HK\$)	Balance as at 1 January 2019 ('000)	Lapsed during the period ('000)	Balance as at 30 June 2019 ('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	5,020	—	5,020
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	8,560	—	8,560
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	9,540	—	9,540
			99,980	—	99,980

Notes:

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

21. Share Option Scheme (Continued)

Fair value of share options and assumptions

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

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

Assumptions and inputs adopted in the valuation are listed below:

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

Notes:

- (a) Fair value of all the share options granted at 31 March 2015 were HK\$49,120,000 equivalent to approximately RMB38,697,000. 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 six months ended 30 June 2019 (2018: RMB Nil).
- (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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

22. Capital Commitments

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Capital expenditure contracted but not provide for in respect of acquisition of property, plant and equipment	75,781	75,781

23. Operating Lease Commitments

The Group as lessee:

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

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Within one year	2,411	4,046
In the second to fifth years, inclusive	4,068	4,791
After five years	9,355	9,566
	15,834	18,403

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

24. Approval of the Interim Financial Statements

The condensed consolidated interim financial information were approved and authorized for issue by the Board of Directors of the Company on 30 August 2019.

OTHER INFORMATION

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 and the chairman of the Board, as the single largest shareholder (taking into account his indirect shareholding in the Company) or the controlling shareholder of the Company, the cessation of Mr. Cai Chenyang as the 100% legal and beneficial owner of the issued shares in Zhan Rui, the resignation or cessation of Mr. Cai Chenyang as the chairman of the Board, and Mr. Cai Chenyang 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.

Share Charge by the Controlling Shareholder

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

OTHER INFORMATION (CONTINUED)

Disclosure of Interests

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

As at 30 June 2019, the interests and short positions of the directors and chief executive in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) as recorded in the register of interest required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer as set out in Appendix 10 to the Listing Rules ("Model Code") were as follows:

Long position in the shares and underlying shares of the Company

Name	Nature of interest	Number of ordinary shares and underlying shares of the Company held	Approximate percentage of the issued share 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%
Ms. Ma Yilin	Beneficial owner	20,000,000	1.06%

Notes:

- (1) Among the 1,078,440,000 shares/underlying shares held, Mr. Cai Chenyang is deemed to be interested in 1,006,000,000 shares of the Company, which are held by Zhan Rui Investments Limited ("Zhan Rui"), a corporation controlled by Mr. Cai Chenyang, while he holds derivative interest in 72,440,000 underlying shares as beneficial owner pursuant to physical settled equity derivatives.
- (2) Mr. Cai Haifang held derivatives interest in 4,420,000 underlying shares in the Company as beneficial owner pursuant to physically settled equity derivatives.

Short position in the shares and underlying shares of the Company

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

Notes:

- (1) Mr. Cai Chenyang, through Zhan Rui, a corporation controlled by him, is 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.

OTHER INFORMATION (CONTINUED)

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	Beneficial owner	1,000	100%

Save as disclosed above, as at 30 June 2019, none of the directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2019, the interest or short position of the persons (other than the directors or chief executive of the Company) in shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position in the shares and underlying shares of the Company

Name	Nature of interest	Number of ordinary Shares/underlying shares of the Company held	Approximate percentage of the issued share capital of the Company
Zhan Rui (<i>Note 1</i>)	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 (<i>Note 2</i>)	Interest of controlled corporation/ security interest in shares	1,136,000,000	60.14%
Central Huijin Investment Ltd. (<i>Note 3</i>)	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.

OTHER INFORMATION (CONTINUED)

Short position in the shares and underlying shares of the Company

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

Notes:

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

Save as disclosed above, as at 30 June 2019, no person (other than the directors or chief executive of the Company) had any interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Purchase, Sale or Redemption of Listed Securities of the Company

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

Corporate Governance Practices

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

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

Compliance with the Model Code

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

OTHER INFORMATION (CONTINUED)

Appointed and Resigned Directors

Resignation of independent non-executive Director, chairman of the audit committee of the Board (the "Audit Committee"), member of the remuneration committee of the Board (the "Remuneration Committee") and member of the nomination committee of the Board (the "Nomination Committee")

Mr. Wu Shiming ("Mr. Wu") has tendered his resignation as an independent non-executive Director, chairman of the Audit Committee, member of the Remuneration Committee and member of the Nomination Committee, with effect from 5 July 2019, in order to devote more time to his personal development. Mr. Wu has confirmed that he has no disagreement with the Board and there are no any matters in respect of his resignation that need to be brought to the attention of the holders of the securities of the Company (the "Shareholders").

Appointment of independent non-executive Director, chairman of the Audit Committee, member of the Remuneration Committee and member of the Nomination Committee

Mr. Xue Chaochao ("Mr. Xue") has been appointed as an independent non-executive Director, chairman of the Audit Committee, member of the Remuneration Committee and member of the Nomination Committee, with effect from 5 July 2019 by the Board.

The biographical information of Mr. Xue is set out below:

Mr. Xue, aged 36, obtained his master's degree in engineering thermophysics in University of Shanghai for Science and Technology in 2009. Mr. Xue is a qualified senior accountant. Mr. Xue also has a certificate of accounting professional and the investment fund industry practice certificate awarded by Langfang Municipal Finance Bureau and Asset Management Associate of China respectively. Mr. Xue has around 10 years of experience in business and financial management. From September 2009 to February 2014, Mr. Xue was the investment manager of the strategy management department in China Energy Conservation and Environmental Protection Group. From February 2014 to March 2016, Mr. Xue was the vice supervisor of the strategy investment department in CECEP Environmental Protection Investment Development (Jiangxi) Co., Ltd* (中節能環保投資發展(江西)有限公司). From March 2016 to March 2019, Mr. Xue was the executive general manager of the energy conservation and environmental protection department in NNFE Fund Management (Beijing) Co., Ltd* (新毅投資基金管理(北京)有限公司). Since March 2019, Mr. Xue is the partner of Beijing Golden Spring Capital Management Co., Ltd* (北京國瑞金泉資本管理有限公司).

Appointment of non-executive Directors

Mr. Cheng Lian ("Mr. Cheng") and Mr. Cai Zhiwei ("Mr. Cai") have been appointed as non-executive Director with effect from 5 July 2019.

The biographical information of both Mr. Cheng and Mr. Cai are set out below:

Mr. Cheng

Mr. Cheng, aged 37, obtained his master's degree in business administration in University of Chinese Academy of Sciences in 2013. Mr. Cheng has around 6 years of experience in accounting and financial management and management of farming industry. Mr. Cheng is a vice general manager of Beijing Beijiao State Farm Company Limited* (北京市北郊農場有限公司) since September 2016.

Mr. Cai

Mr. Cai, aged 27, obtained his master's degree in Business Finance in Queen Mary University of London in 2015. Mr. Cai has over 2 years of experience in financial management. From July 2016 to October 2018, Mr. Cai was a senior manager of fixed income department of BOC International (China) Co., Ltd. Since February 2019, Mr. Cai is an analyst of investment banking department of BOCI Asia Limited. Mr. Cai is the son of Mr. Cai Chenyang, who is an executive director, the chairman, the chief executive officer and a controlling shareholder of the Company.

* for identification purposes only

OTHER INFORMATION (CONTINUED)

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr. Xue Chaochao, Mr. Cai Zirong and Mr. Wang Aiguo. The Audit Committee is chaired by Mr. Xue Chaochao.

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

Share Option Scheme

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

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

Grantee	Date of grant	Exercise period	Exercise price per share (HK\$)	Balance as at 31 December 2018 and 1 January 2019 ('000)	Lapsed/ cancelled during the period ('000)	Exercised during the period ('000)	Balance as at 30 June 2019 ('000)
Executive Directors							
— Mr. Cai Chenyang	31 March 2015	(1) 31 Dec 2015 to 30 Mar 2025	0.595	21,000	—	—	21,000
	31 March 2015	(1) 31 Dec 2016 to 30 Mar 2025	0.595	24,960	—	—	24,960
	31 March 2015	(1) 31 Dec 2017 to 30 Mar 2025	0.595	26,480	—	—	26,480
— Mr. Cai Haifang	31 March 2015	(1) 31 Dec 2015 to 30 Mar 2025	0.595	1,220	—	—	1,220
	31 March 2015	(1) 31 Dec 2016 to 30 Mar 2025	0.595	1,600	—	—	1,600
	31 March 2015	(1) 31 Dec 2017 to 30 Mar 2025	0.595	1,600	—	—	1,600
Employees of the Group	31 March 2015	(1) 31 Dec 2015 to 30 Mar 2025	0.595	5,020	—	—	5,020
	31 March 2015	(1) 31 Dec 2016 to 30 Mar 2025	0.595	8,560	—	—	8,560
	31 March 2015	(1) 31 Dec 2017 to 30 Mar 2025	0.595	9,540	—	—	9,540
				99,980	—	—	99,980

OTHER INFORMATION (CONTINUED)

Notes:

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

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

Purpose of the Share Option Scheme

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

Participants of the Share Option Scheme

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

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

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

Maximum entitlement of each Participant

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

OTHER INFORMATION (CONTINUED)

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

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

Payment on acceptance of option offer

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

Basis of determining the exercise price

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



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中國普甜食品控股有限公司