



中國康大食品有限公司

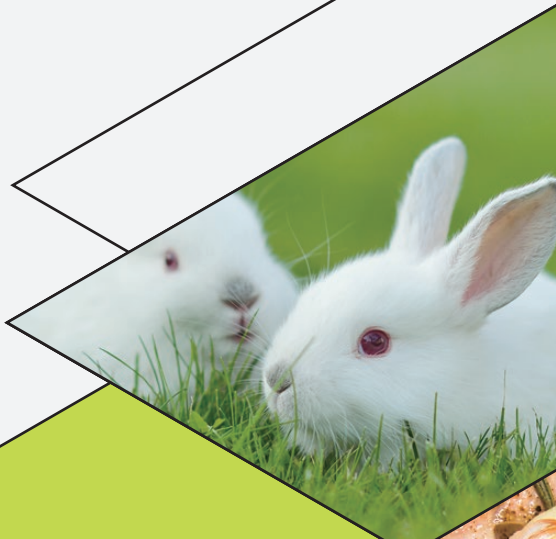
CHINA KANGDA FOOD COMPANY LIMITED

*(incorporated in Bermuda with limited liability)*

Hong Kong stock code : 834

Singapore stock code : P74

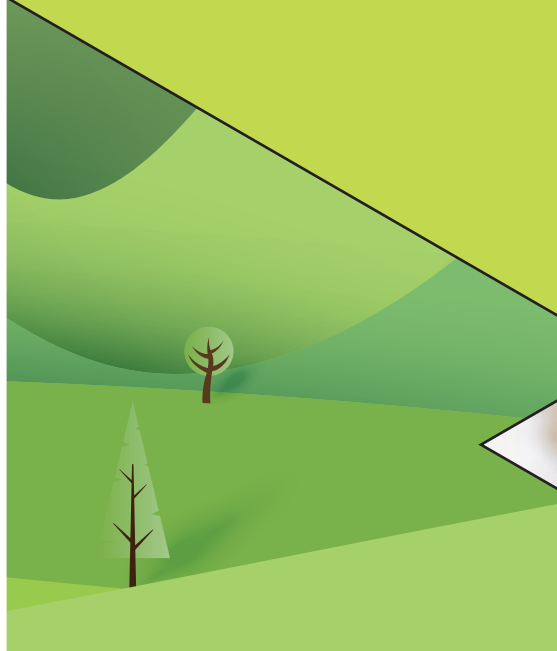
Annual Report  
**2019**



Lawn to Table Eating

# ***The Whole Industry Chain***

Provide Safe and Healthy Lifestyle



## Corporate Profile

Established in 1992, China Kangda Food Company Limited (the "Company") is a diversified food manufacturing and processing group based in the People's Republic of China (the "PRC") and is primarily engaged in the production, processing, sale and distribution of:

- a) chilled and frozen rabbit meat;
- b) chilled and frozen chicken meat;
- c) processed foods which include a wide range of food products such as instant soup, curry food, chicken-based cooked products, roasted rabbit food, meatballs, de-oxygenated consumer packed chestnuts and seafood; and
- d) other products which mainly include pet food, dehydrated vegetables, poultry, rabbit organs, fruits, dried chili, pig liver, seasoning and high value-added healthcare products.

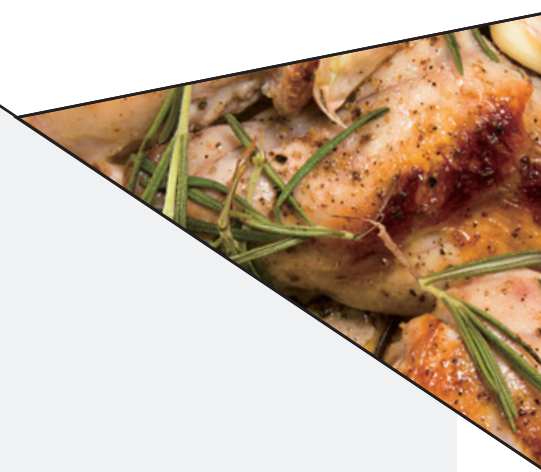
The Company's chilled and frozen rabbit meat is mainly exported to European Union (the "EU"). Besides selling products under its own brand names of "康大", "嘉府", "U味", and "KONDA", the Company also acts as an Original Equipment Manufacture ("OEM") manufacturer of a variety of processed foods including meatballs, seafood, chicken-based cooked products, chestnuts, instant soups and curry products and etc.

The Company currently distributes its wide range of products in 26 provinces and over 30 major cities in the PRC and exports to more than 20 countries and cities including Japan, the United Arab Emirates and certain countries in the EU.

The Company is one of the major companies in the PRC authorised to supply rabbit meat to the EU and one of the largest PRC exporters of rabbit meat. The Company is also the first PRC company to be granted the certification for breeding progeny rabbit in the PRC. The Company has further strengthened its foothold in this segment through stable expansion strategies.

For more information, please log on to [www.kangdafood.com](http://www.kangdafood.com)





## CONTENTS

<b>1</b>	Financial Highlights
<b>3</b>	Chairman's Statement
<b>4</b>	Board of Directors
<b>6</b>	Key Management
<b>7</b>	Corporate Information
<b>8</b>	Management Discussion and Analysis
<b>14</b>	Corporate Structure
<b>15</b>	Corporate Governance Report
<b>51</b>	Environmental, Social and Governance Report
<b>60</b>	Directors' Report
<b>70</b>	Statement by the Directors
<b>71</b>	Independent Auditor's Report
<b>75</b>	Consolidated Statement of Comprehensive Income
<b>76</b>	Consolidated Statement of Financial Position
<b>78</b>	Consolidated Statement of Changes in Equity
<b>79</b>	Consolidated Statement of Cash Flows
<b>81</b>	Notes to the Financial Statements

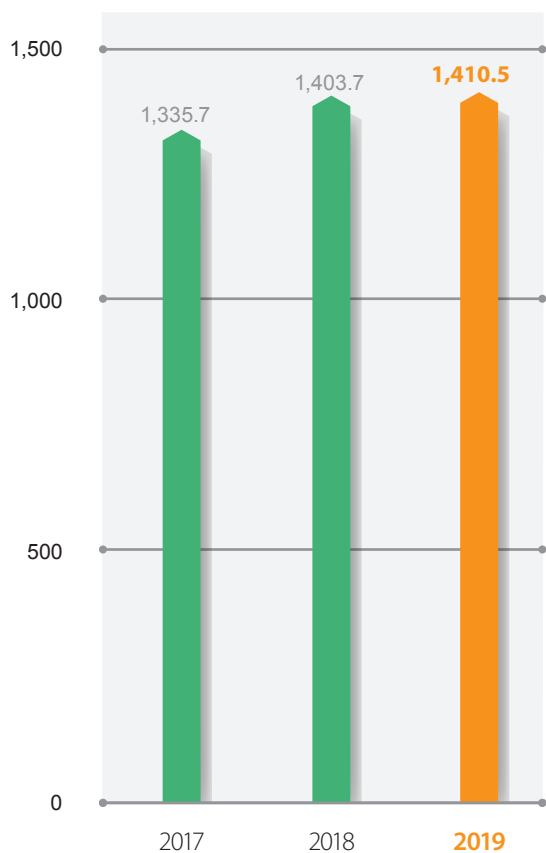


# Financial Highlights

	FY2019 RMB'million	FY2018 RMB'million	FY2017 RMB'million
Revenue	1,410.5	1,403.7	1,335.7
Gross Profit	106.6	121.4	110.2
Net Profit/(Loss) Attributable to Owners of the Company	4.4	5.6	(15.8)
Earnings/(Loss) per Share – Basic (RMB cents)	1.0	1.3	(3.7)
Net Asset Value per Share – Basic (RMB cents)	154.9	153.6	153.9

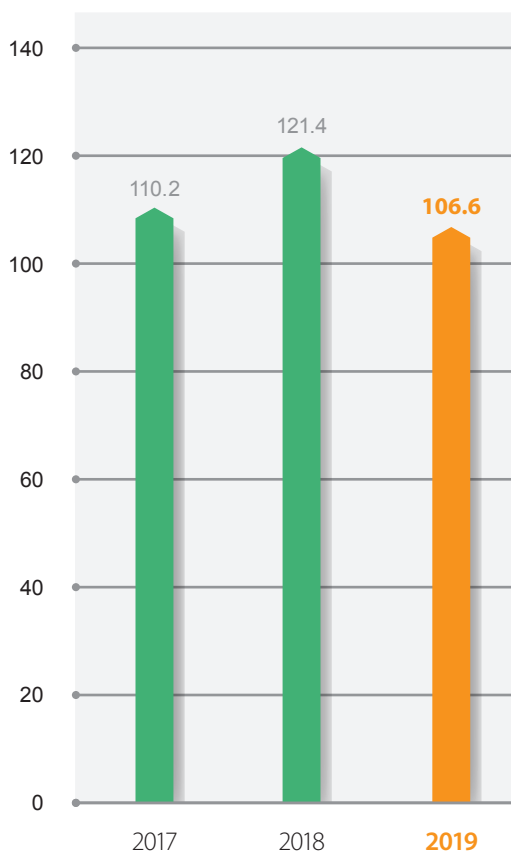
## Total Revenue increased: 0.5%

RMB'million



## Gross profit decreased: 12.2%

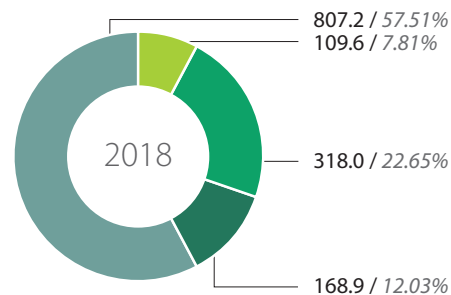
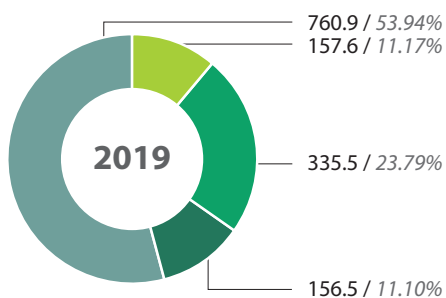
RMB'million



# Financial Highlights

## Revenue by Products

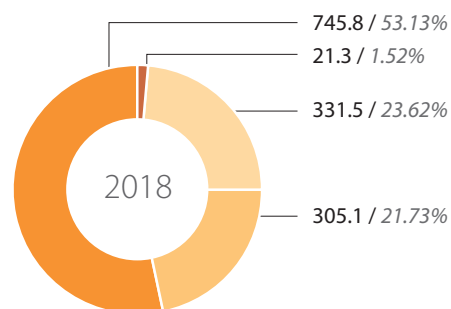
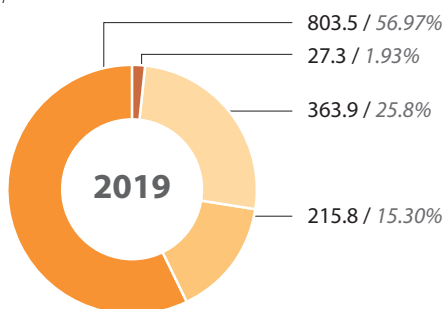
RMB'million



● Processed foods    ● Chilled and frozen rabbit meat    ● Chilled and frozen chicken meat    ● Other products

## Revenue by Geographical Markets

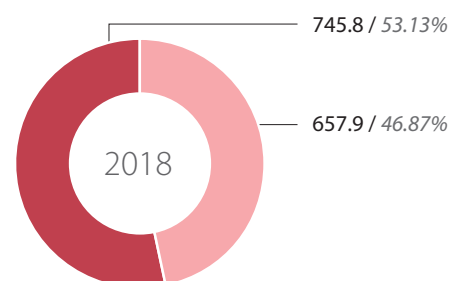
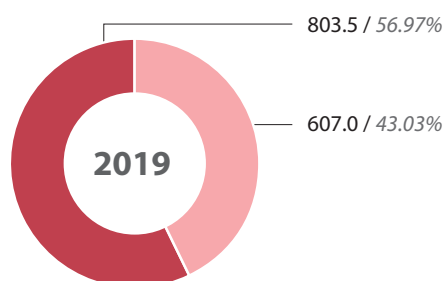
RMB'million



● PRC    ● Other Countries    ● Europe    ● Japan

## Revenue by Region

RMB'million



● PRC    ● Export



# Chairman's Statement

Dear Shareholders

On behalf of the Board of Directors (the "Board") of the Company, I am pleased to present the audited annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019.

During the fiscal year 2019 ("FY2019"), the Group recorded a profit attributable to owners of the Company amounted to RMB4.4 million as compared to RMB5.6 million recorded in the fiscal year 2018 ("FY2018"). The Group has implemented a prudent approach in assessing its production plan with the actual market conditions and recorded sales revenue of approximately RMB1,410.5 million in FY2019, representing an increase of RMB6.9 million or 0.5% from approximately RMB1,403.7 million in FY2018. The processed food products were still the Group's main profit contributor in FY2019. Adhering to the highest standards in food safety and product quality is one of the Group's core values. The diversion of some of the Group's chilled and frozen chicken meat products into higher value processed food contributed a satisfactory return.

The Group operates a platform that seamlessly integrates research and development, production, quality control and distribution. All of the Group's production, processing and distribution facilities have been accredited according to ISO9001, ISO14001, HACCP or other international certification standards. The Group believes that its fully integrated operations, coupled with its stringent quality control standards and production safety systems, would ensure consistent and high-quality products.

## PROSPECT

Being a company focuses on consumer products industry, our business is always affected by economic growth, consumers' preference, industry cycle and animal epidemics. In 2020, with the outbreak of COVID-19, continuation of ASF, re-emergence of trade protectionism and global recession, the whole consumer industry is facing complicated external environment and greater challenges. Despite the challenges, with our products being consumer staples, we believe that all the above uncertainties will have limited impact on our business.

The outbreak of COVID-19 in January 2020 has certain impact on our operations, such as transportation restrictions, difficulties in staff returning to work, shortage of raw materials and forages and etc. The Group has timely formulated a comprehensive and stringent prevention and control plan to safeguard the health of our employee, products safety as well as stable production and smooth sales.

Based on our preliminary review, the production and sales in the first quarter of 2020 recorded a decline as compared to the corresponding period of 2019. With the pandemic gradually under controlled in China, our operations have seen to be steadily returning to normal. Considering the nature of our business, we believe the negative impact of the pandemic on the Group will be short-term and manageable. Meanwhile, we will continue to be highly cautious on the latest development of the pandemic and strictly implement our prevention and control plan.

The food industry will continue to face challenges with intense competition. To maintain the overall profitability and to enhance the competitiveness and resistance against market risk, the Group will focus on high value-added processed foods, safeguard the business relationship with the major customers and proactively explore new markets and new customers.

With the consumption upgrades, food safety and healthiness become the focus of consumers' attention, which is always our priority. Rabbit meat segment has been and will continue to be the core and competitive business of the Group. Rabbit meat is healthier and with far more protein, less fat and calorie levels compared to other meats. The Group is one of eight enterprises in the PRC which possesses the permit to export rabbit meat to overseas market. The Group is confident that the demands for rabbit meat will increase steadily with as the consumers tend to prefer a wider variety of nutritious food when living standards improve. Therefore, the Group will continue to leverage on its leading position in the rabbit meat segment and offer consumers with healthy and safe products.

We will continue to optimise product portfolios, enhance cost management, promote brand building and expand new sales channels to strengthen the core competence and improve the overall performance of the Group. Based on the Group's reputation as a provider for food products, the Group believes that a relentless pursuit of its strategies will lead to a sustainable growth, enhance its global leadership role and creates long-term value for its shareholders, employees and other stakeholders.

## APPRECIATION

Lastly, on behalf of the Board of Directors, management and employees, I would like to convey my sincere appreciation to shareholders for your support to the Company over the years.

**Fang Yu**

*Chairman, Executive Director and Chief Executive Officer*



# Board of Directors

## Chairman, Executive Director and CEO

**Fang Yu (方宇)**, aged 43, is the Group's Chairman, an Executive Director and CEO of the Company with effect from 19 June 2017. He was last re-elected as a Director on 22 June 2018. Mr. Fang graduated from the Central University of Finance and Economics (中央財經大學) in 2000 with a Bachelor's Degree in Economics specialized in currency banking. Mr. Fang has previously worked in the credit management department of the headquarters of Industrial and Commercial Bank of China, and served as an administrative secretary (deputy section level and section level) of the general office of the headquarters of Industrial and Commercial Bank of China as well as the general manager of the risk management department of ICBC Financial Leasing Co., Ltd. (工銀金融租賃有限公司).

## Executive Directors

**An Fengjun (安豐軍)**, aged 47, is an Executive Director of the Company. He was appointed as a Director on 11 March 2014 and was last re-elected on 17 June 2019. He has more than 10 years of experience in the food production industry and is primarily responsible for food production and business operation of the Group.

Mr. An joined Kangda Foods in July 1993, and was initially responsible for finance matters. In April 1996, he worked in KD Feed Company as both Finance Manager and an Assistant to Manager. He was a Finance Manager of Qingdao Kangda Foreign Trade Group Company Limited ("KD Trading Company") from 1999 to 2001 and became its Vice General Manager and Sales Manager of Qingdao Kangda Property Development Co., Ltd. in 2002. Mr. An held the position as an Executive Director of the Company since 25 August 2006 to 28 November 2012. After his resignation, Mr. An worked as a General Manager of Qingdao Liyumen Catering Co. Ltd. (青島鯉魚門餐飲有限公司), one of the subsidiaries of KD Trading Company.

Mr. An graduated from Jiaonan City Middle Special Vocational School (膠南市職業中等專業學校) majored in Accounting in June 1993. He also completed a post-graduate course in business management in Tianjin University (天津大學) in August 2005.

**Gao Yanxu (高岩緒)**, aged 54, is an Executive Director of the Company. He was appointed as a Director on 10 May 2006 and was last re-elected on 17 June 2019. Mr. Gao has more than 10 years of experience in the food production industry.

From 1996 to 1999, Mr. Gao worked as the Manager of Qingdao City Jiaonan Kangda Feed Co., Ltd. ("KD Feed Company"). He then worked in Shandong Province Qingdao Kanghong Poultry & Egg Co., Ltd. (山東省青島康宏肉食蛋品有限公司) in 1999 as a Manager. Mr. Gao obtained a Bachelor's Degree in Business and Economic Management from Renmin University of China (中國人民大學) in June 1997. On 28 February 2000, he completed the courses of Master's degree in Management in Business Administration in the graduate school of Renmin University of China (中國人民大學研究生院).

**Luo Zhenwu (羅貞伍)**, aged 42, is an Executive Director of the Company with effect from 19 June 2017. He was last re-elected as a Director on 22 June 2018. Mr. Luo graduated from the Central University of Finance and Economics (中央財經大學) in 2000 with a Bachelor's Degree in Finance. He obtained a Master's Degree in Accounting from Peking University (北京大學) in 2017. He was accredited the intermediate accountant qualification by the Ministry of Finance of the PRC in 2015. Mr. Luo served as expatriate finance manager and regional finance director of Guangzhou Automobile Group Business Co., Ltd. (廣州汽車集團商貿有限公司), finance director of Beijing Jintai Yuande Asset Management Co., Ltd. (北京錦泰遠德資產管理有限公司) and finance director of Hangzhou Changjiang Automobile Holdings Co., Ltd. (杭州長江汽車控股有限公司).

**Li Wei (李巍)**, aged 37, is an Executive Director of the Company with effect from 13 October 2017. He was last re-elected as a Director on 22 June 2018. Mr. Li graduated from Wuhan University in 2005 with Bachelor's Degree in Information Safety and Bachelor's Degree in Law. He then obtained a Master of Finance from Wuhan University in 2008. Mr. Li has obtained a qualification from the Securities Association of China for securities dealings since April 2016.



## Board of Directors

Mr. Li served as a client manager of the Wuhan Branch of China Merchants Bank from July 2005 to June 2006, manager of the Integrated Department of the Central Huijin Investment Limited from June 2008 to September 2008, manager of the Operational Department and secretary to the senior management of China Investment Corporation from September 2008 to January 2015 and was promoted to the position of senior deputy manager of China Investment Corporation in 2015. Mr. Li also served as the secretary to the top leader of the Chinese preparation work group under Asian Infrastructure Investment Bank from February 2014 to October 2015. He was the managing director of the investment bank headquarter of China Galaxy Securities Co., Ltd. since October 2015. He served as a General Manager of Qingdao Kangda Foods Co., Ltd, one of the subsidiaries of the Company, from May 2017 to October 2017.

### Independent Non-Executive Directors

**Chan Ka Yin (陳家賢)**, aged 45, is an Independent Non-executive Director of the Company with effective from 7 November 2019. He obtained a degree in Bachelor of Business Administration in Accounting and Finance (Hons.) from The University of Hong Kong in November 1996. He has been a fellow member of the Association of Chartered Certified Accountants since December 2004 and a fellow member of the Hong Kong Institute of Certified Public Accountants since May 2010.

Mr. Chan is currently a director of Apex Corporate Advisory Limited, a corporate services company in Hong Kong. He worked in Ernst & Young from September 1997 to March 2005. Mr. Chan has been an independent non-executive director of China Overseas Nuoxin International Holdings Limited (stock code: 464, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) since June 2019. He was an independent non-executive director of Deson Construction International Holdings Limited (stock code: 8268, a company listed on the Stock Exchange) for a period from December 2015 to July 2019.

**Song Xuejun (宋學軍)**, aged 57, is an Independent Non-Executive Director of the Company with effect from 19 June 2017. He was last re-elected as a Director on 22 June 2018. Mr. Song graduated from Xuzhou Medical University (徐州醫科大學) in 1986 with a Bachelor's Degree in Clinical Medicine and obtained his Master's Degree in Medicine specialized in Anaesthesiology from the same university in 1992. He further obtained his Doctorate Degree in Science specialized in Neurobiology in 1995 from Institute of Neuroscience, Chinese Academy of Sciences (中國科學院神經科學研究所).

Mr. Song served as a postdoctoral fellow in Anesthesiology and Neurobiology at Yale University from 1995 to 1998, junior faculty at University of Texas Medical Center and senior scientist, assistant professor, associate professor, professor at Parker University and associate director of Parker Research Institute from 1998 to 2016. He currently serves as professor and Director of SUSTech Center for Pain Medicine at Southern University of Science and Technology (南方科技大學) and Executive Director of Pain Medical Center at Peking University (北京大學).

**Lu Zhiwen (盧志文)**, aged 56, is an Independent Non-Executive Director of the Company with effect from 17 June 2019. He was last re-elected as a Director on 22 June 2018. Mr. Lu graduated from Huaiyin Normal University (淮陰師範學院) (formerly known as "Huaiyin Higher Normal School (淮陰師範專科學校)") specialized in chemistry study in 1983. He then participated and graduated from National Secondary and Primary School Thousand Core School Principals Study Class (全國中小學千名骨幹校長研修班) organized by the National Training Center for Secondary School Principals under the Ministry of Education of the PRC in 2000. He later obtained a Degree of Executive Master of Business Administration from The University of Texas at Arlington in 2006.

Mr. Lu served as a member of the sixth session council of the education administration branch of The Chinese Society of Education (中國教育學會教育管理分會第六屆理事會), honorary supervisor of Beichuan High School Curriculum Reform Research Centre (北川中學課改研發中心), the chairman of Jiangsu Charming Education Foundation (江蘇昌明教育基金會) and the principal of Baoying High School of Jiangsu Province (江蘇省寶應中學). He currently serves as the headmaster of Xiangyu Education Group (翔宇教育集團) and the principal of Wenzhou Xiangyu Middle School (溫州翔宇中學). He also serves as the standing committee member of Chinese Society for Taoxingzhi Studies (中國陶行知研究會), vice-president of Chinese Lantern Riddle Academic Committee (中華燈謎學術委員會), dean of Zhejiang Wenzhou Institute of Private Education (浙江省溫州民辦教育研究院) and the vice-chairman of the first session council of China Education Development Strategy Association's Private Education Professional Committee (中國教育發展戰略學會民辦教育專業委員會第一屆理事會).





## Key Management

**Ms. Fu Jie (傅捷)**, aged 41, has been appointed as the Chief Financial Officer (“CFO”) with effect from 19 September 2019. She is a member of the China Institute of Certified Public Accountants and the Association of Chartered Certified Accountants (ACCA). Ms. Fu was a senior account manager at the Kunming Sales Department of Southwest Securities Company Limited (西南證券股份有限公司) from September 2000 to July 2004, and was responsible for investment and customer relationship. Ms. Fu worked for Ernst & Young Hua Ming LLP from August 2004 to March 2016, and served as the senior manager of audit department from October 2012 to March 2016. She participated in the audit work for a number of Hong Kong listed companies and A-share listed companies in China. She served as the CFO of China U-Ton Holdings Limited (a company listed on the Main Board of the Stock Exchange of Hong Kong Limited, stock code: 6168) from April 2016 to July 2019 and was responsible for financial management, investment and financing and investor relations. Ms. Fu has been an independent non-executive director of Dynagreen Environmental Protection Group Co., Ltd. (a company listed on the Main Board of the Stock Exchange of Hong Kong Limited, stock code: 1330) since February 2018. Ms. Fu graduated from the Finance Major of The Central University of Finance and Economics in 2000 with a bachelor’s degree in economics.

**Mr. Chen Xi (陳曦)**, aged 38, has been appointed as the company secretary of the Company with effect from 29 November 2019. He obtained a bachelor’s degree of arts from Guangdong University of Foreign Studies in 2005 and subsequently a master’s degree in business administration from Peking University, and a master’s degree in corporate governance and compliance from Hong Kong Baptist University. Mr. Chen served as the project manager and the deputy representative of the Hong Kong Representative Office of China Council for the Promotion of International Trade from July 2005 to July 2019. He also served as the director and company secretary of Trade Prosper Hong Kong Limited from November 2016 to September 2019. Mr. Chen is a member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute.



# Corporate Information

## BOARD OF DIRECTORS

Executive:  
Fang Yu (Chairman & CEO)  
Gao Yanxu  
An Fengjun  
Luo Zhenwu  
Li Wei

Independent Non-executive:  
Chan Ka Yin  
Song Xuejun  
Lu Zhiwen

## AUDIT COMMITTEE

Chan Ka Yin (Chairman)  
Song Xuejun  
Lu Zhiwen

## REMUNERATION COMMITTEE

Lu Zhiwen (Chairman)  
Chan Ka Yin  
Song Xuejun  
Luo Zhenwu

## NOMINATION COMMITTEE

Song Xuejun (Chairman)  
Chan Ka Yin  
Lu Zhiwen  
Fang Yu

## COMPANY SECRETARIES

Chen Xi (ACIS, ACS)  
Chiang Wai Ming Angeline (ACS)

## AUTHORISED REPRESENTATIVES

Fang Yu  
Luo Zhenwu

## REGISTERED OFFICE

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 8399, Binhai Boulevard,  
Huangdao District,  
Qingdao City  
Shandong Province  
PRC

## PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE

Suites 1505-07, 15/F  
Shui On Centre  
6-8 Harbour Road, Wanchai  
Hong Kong

## SINGAPORE SHARE REGISTRAR

B.A.C.S. Private Limited  
8 Robinson Road #03-00  
ASO Building  
Singapore 048544

## HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## AUDITOR

BDO Limited  
Certified Public Accountants  
25th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

## WEBSITE OF THE COMPANY

[www.kangdafood.com](http://www.kangdafood.com)  
(The contents of the Company's website do not form part of this document)



# Management Discussion and Analysis

## BUSINESS REVIEW

During the fiscal year 2019, the Group recorded a profit attributable to owners of the Company amounted to approximately RMB4.4 million as compared to approximately RMB5.6 million recorded in the fiscal year 2018.

The Group continued to adopt its stable operation strategy. The sales turnover increased by 0.5% from approximately RMB1,403.7 million for FY2018 to approximately RMB1,410.5 million for FY2019. The Group's gross profit decreased by 12.2% to RMB106.6 million for FY2019. Gross profit margin decreased from 8.6% for FY2018 to 7.6% for FY2019. Affected by African Swine Flu ("ASF"), the pork price soared during the year. Consequently, selling price of chicken and rabbit meat increased as a result of change of meat consumption behavior. However, the negative impact of shortage of raw material, increase of logistics costs outweighed the increase of selling price, the gross margin and gross profit of the Group declined in FY2019 as compared to FY2018.

Revenue derived from the production and sales of processed food, chilled and frozen chicken meat and chilled and frozen rabbit meat contributed 53.9%, 23.8% and 11.2% of the revenue for FY2019 (FY2018: 57.5%, 22.7% and 7.8%), respectively. Revenue structure of the Group remains relatively stable. As rabbit meat is our competitive business segment, the Group has established the whole industrial chain of rabbit meat from breeding, slaughtering to processing and will continue to enhance its contribution.

## OPERATING AND FINANCIAL REVIEW

### Revenue by products

	<b>FY2019</b> <b>RMB'000</b>	FY2018 RMB'000	% Change + / (-)
Processed food	<b>760,874</b>	807,165	(5.7)
Chilled and frozen rabbit meat	<b>157,599</b>	109,559	43.8
Chilled and frozen chicken meat	<b>335,528</b>	318,053	5.5
Other products	<b>156,534</b>	168,896	(7.3)
<b>Total</b>	<b>1,410,535</b>	1,403,673	0.5

#### *Processed Food Products*

Revenue derived from the production and sales of processed food products decreased by 5.7% to approximately RMB760.9 million for FY2019. Affected by price rise of raw material meat and product portfolio adjustment, the export sales of processed food products decreased in FY2019.

#### *Chilled and Frozen Rabbit Meat*

The sales of chilled and frozen rabbit meat products increased by 43.8% to approximately RMB157.6 million in FY2019, which was contributed to the new markets and customers developed in Xinjiang Province and Ningxia Province in FY2019.

#### *Chilled and Frozen Chicken Meat*

Revenue derived from the production and sales of chilled and frozen chicken meat increased by 5.5% to approximately RMB335.5 million for FY2019. The increase was mainly more chicken meat consumption as substitution for pork consumption due to the rise of pork price in FY2019.



# Management Discussion and Analysis

## Other Products

Revenue derived from the production and sale of other products decreased by 7.3% to RMB156.5 million for FY2019. The Group has adjusted its product portfolio and ceased the production of some products with lower or negative gross margin due to sharp price increase in certain raw material meat. Our proactive adjustment led to a decrease in sales of other products.

## Revenue by Geographical Markets

	FY2019 RMB'000	FY2018 RMB'000	% Change + / (-)
Export	607,007	657,857	(7.7)
PRC	803,528	745,816	7.7
<b>Total</b>	<b>1,410,535</b>	1,403,673	0.5

On a geographical basis, our revenue from PRC and overseas contributed 57.0% and 43.0% (FY2018: 53.1% and 46.9%) of the revenue, respectively. Revenue from PRC sales increased by 7.7% to RMB803.5 million for FY2019. Revenue from export sales decreased by 7.7% to RMB607.0 million for FY2019. The increase in domestic sales mainly attributed from new markets and customers developed in FY2019. The decrease in export sales was a result of adjustment of product portfolio and cessation of sales of lower or negative gross margin products due to rising price of raw material meat.

## Profitability

### Gross Profit and Margin

	FY2019 RMB'000	FY2019 Margin %	FY2018 RMB'000	FY2018 Margin %	Change RMB'000	% Change + / (-)
Processed food	63,545	8.4	100,526	12.5	(36,981)	(36.8)
Rabbit meat	12,393	7.9	2,866	2.6	9,527	332.4
Chicken meat	15,180	4.5	(1,307)	(0.4)	16,487	1,261.4
Other products	15,441	9.9	19,272	11.4	(3,831)	(19.9)
<b>Total</b>	<b>106,559</b>	<b>7.6</b>	121,357	8.6	(14,798)	(12.2)

The overall gross profit margin was 7.6% for FY2019, representing a decrease of 1 percentage point from 8.6% of the previous year.

### Processed Food Products

Processed food products were our main profit contributor. The gross margin decreased from 12.5% for FY2018 to 8.4% for FY2019 which was due to a sharp increase in the price of raw material meat pushed up our production costs in FY2019, while the selling price of some overseas sales orders were dependant on economy outlook year by year. Although the Group proactively adjusted product portfolio and ceased production of some products with lower or negative gross margin, the time lag of adjusting selling price still led to a decrease in gross margin of processed food products.

### Chilled and Frozen Rabbit Meat

The gross profit margin of chilled and frozen rabbit meat had a substantial increase in FY2019, from 2.6% for FY2018 to 7.9% for FY2019. With the pork price increase in FY2019, the price of other meat products increased accordingly. The Group has established whole industrial chain of rabbit meat and has the ability to control the production cost of rabbit meat. This business segment therefore recorded an increase in gross profit and gross margin.



# Management Discussion and Analysis

## *Chilled and Frozen Chicken Meat*

The gross profit margin of chilled and frozen chicken meat improved from -0.4% for FY2018 to 4.5% for FY2019. The improvement was a result of selling price increase for chicken meat due to increased demand in FY2019.

## *Other Products*

Other products were mainly pet food products, feed products and chicken and rabbit meat by-products. Due to the increase in cost of raw material meat, gross profit margin decreased from 11.4% in FY2018 to 9.9% in FY2019.

## *Other Income*

Other income comprised mainly gain on change in fair value of biological assets, interest income on financial assets, government grants, gain on disposal of subsidiaries and insurance claims amounting to RMB34.9 million, RMB4.7 million, RMB3.3 million, RMB3.0 million and RMB1.5 million, respectively. The increase in other income was mainly due to the increase in gains arising from changes in fair value less estimated costs to sell of biological assets as a result of selling price increase in biological assets. The Group has engaged an independent valuer to assess the fair value of biological assets on an annual basis.

## *Selling and Distribution Expenses*

Selling and distribution expenses comprised mainly salary and welfare, transportation costs, advertisement costs, etc. In order to expand sales channels in domestic market, the Group incurred more selling expenses in FY2019.

## *Administrative Expenses*

Administrative expenses comprised mainly staff costs, professional fees, depreciation charge, travelling expenses and other miscellaneous administrative expenses. The reasons led to an increase in administrative expenses: (i) more senior managements hired and more travelling expenses incurred to develop new business, (ii) more asset insurance expenses incurred to cover more rabbits and rabbit farm, (iii) professional fees for additional professional works performed during FY2019.

## *Other Operating Expenses*

Other operating expenses represented miscellaneous expenses, comprising mainly write off property, plant and equipment, which decreased by 42% to approximately RMB19.0 million for FY2019. The decrease was mainly due to less property, plant and equipment were disposed and written off during the year as the Company disposed and upgraded certain old property, plant and equipment in FY2018.

## *Finance costs*

Finance costs decreased by 1.2% to approximately RMB24.9 million for FY2019, mainly due to the decrease in average balance of bank borrowing for the year.

## *Taxation*

Taxation increased by 207.7% to approximately RMB4.1 million for FY2019. Under the New PRC Corporate Income Tax Law and Implementation Rules, enterprises that engage in qualifying agricultural business are eligible for certain tax benefits, including exemption of corporate income tax on profits derived from such business. The increase in tax expenses mainly due to withholding tax accrued in relation to dividend declared by a subsidiary to an overseas company, another subsidiary of the Group.



# Management Discussion and Analysis

## **Review of the Group's Financial Position as at 31 December 2019**

The value of the Group's property, plant and equipment ("PPE") increased by 1.4% to approximately RMB687.1 million as at 31 December 2019. The increase was a net effect of addition of plant and machinery due to upgrading factories facilities and breeder farms and depreciation charge, disposal of existing factories facilities and breeder farms. The addition of PPE mainly included new rabbit farms and upgrade of environmental equipment in rabbit farms.

The prepaid premium for land leases was reclassified to right-of-use assets upon the adoption of IFRS 16 in current year. For details, please refer to note 2(a) in the consolidated financial statements.

Goodwill decreased by RMB0.4 million as at 31 December 2019, was due to disposal of a subsidiary in FY2019.

The deposits for property, plant and equipment were prepayment paid for PPE and were non-current in nature. The increase was in line with the increase in construction in progress.

Biological assets mainly referred to progeny rabbits and progeny chickens for sale and breeder rabbits and chickens for breeding purpose. These biological assets were valued by an independent professional valuer as at 31 December 2019 with reference to market-determined prices.

Inventories increased by 8.0% to approximately RMB134.9 million for FY2019 due to maintenance of more inventories for favorable market trend. The inventory turnover days for FY2019 were 36 days compared to 43 days for FY2018.

Trade and bills receivables decreased by 6.6% to approximately RMB114.6 million as at 31 December 2019. Although revenue increased slightly in FY2019, more accounts receivables were collected at the end of the year, which led to a decrease in trade and bills receivables. The trade and bills receivables turnover days was 31 days for FY2019 compared to 29 days for FY2018.

Prepayments, other receivables and deposits increased by 42.5% to approximately RMB45.8 million as at 31 December 2019. The increase was mainly due to increase of prepayment for forage and raw material of processed food as price rise is expected in coming year.

Cash and cash equivalents, including pledged deposits, decreased by approximately 63.4% to approximately RMB215.3 million for FY2019. The decrease was mainly as a result of settlement of bills payable secured by pledged deposits. Approximately RMB35.9 million and RMB20.0 million of the bank deposit was secured against the bills payables and bank borrowing of the Group as at 31 December 2019, respectively (31 December 2018: RMB291.1 million and RMB20.0 million).

Trade and bills payables decreased by 59.5% to approximately RMB205.5 million as at 31 December 2019. The decrease in the trade and bills payables was mainly due to settlement of bills payable in FY2019.

Accrued liabilities and other payables represented payables for salary and welfare payables, accrued expenses and deposit received, increased by 17.5% to approximately RMB132.4 million as at 31 December 2019. The increase mainly due to increase in payables for upgrading chicken farms.

Contract liabilities represents advance consideration from customers which the performance obligation under the Group's existing contracts were unfulfilled. The increase was a result of more advance payment received from customer due to favorable market trend.

The interest-bearing bank and other borrowing balances as at 31 December 2019 decreased by RMB66.7 million to approximately RMB356.1 million after taking into account the additional borrowings of approximately RMB334.0 million and repayment of the borrowings of approximately RMB400.7 million during the year. No other borrowing were classified as non-current liabilities as at 31 December 2019 (31 December 2018: RMB0.26 million).

Tax payables increased from RMB1.5 million for FY2018 to RMB2.5 million as at 31 December 2019. The increase in tax payables was in line with the increase in taxation during the year.



# Management Discussion and Analysis

## CAPITAL STRUCTURE

As at 31 December 2019, the Group had net assets of approximately RMB670.7 million (31 December 2018: RMB665.1 million), comprising non-current assets of approximately RMB951.2 million (31 December 2018: RMB867.6 million), and current assets of approximately RMB545.3 million (31 December 2018: RMB896.3 million). The Group recorded a net current liability position of approximately RMB213.9 million as at 31 December 2019 (31 December 2018: RMB178.2 million), which primarily consist of cash and cash equivalents balances amounted to approximately RMB159.5 million (31 December 2018: RMB276.9 million). Moreover, as at 31 December 2019 inventories amounted to approximately RMB134.9 million (31 December 2018: RMB124.9 million) and trade and bills receivables amounted to approximately RMB114.6 million (31 December 2018: RMB122.7 million) were also major current assets. Major current liabilities are trade and bills payables and interest-bearing bank and other borrowings which, as at 31 December 2019 amounted to approximately RMB205.5 million (31 December 2018: RMB507.2 million) and approximately RMB356.1 million (31 December 2018: RMB422.9 million) respectively.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group has cash and cash equivalent of approximately RMB159.5 million (31 December 2018: RMB276.9 million) and had total interest-bearing bank borrowings of approximately RMB334.0 million (31 December 2018: RMB384.0 million), other borrowings of approximately RMB22.1 million (31 December 2018: RMB39.2 million), loan from immediate holding company of RMB26.8 million (2018: Nil) and lease liabilities of RMB55.2 million (2018: Nil) respectively. The Group's interest-bearing bank borrowings and other borrowing were debts with interest rate ranging from 4.79% to 6.00% (31 December 2018: 4.70% to 6.00%) and 3.0% to 3.5% (31 December 2018: 3.0% to 6.95%) per annum, respectively.

The gearing ratio for the Group was 69.7% as at 31 December 2019 (31 December 2018: 69.2%), based on net debt of approximately RMB448.9 million (31 December 2018: RMB442.2 million) and equity attributable to Company's owners of approximately RMB643.7 million (31 December 2018: RMB639.1 million). The Group would serve its debts primarily with cash flow generated from its operation, seeking renewal of the outstanding bank borrowings and new banking facilities and exploring the availability of alternative source of financing. The Board is confident that the Group has adequate financial resources to meet its future debt repayment and support its working capital requirement and future expansion.

## FOREIGN CURRENCY EXPOSURE

The following table details the Group's exposures as at FY2019 to foreign currency risk from the financial assets and financial liabilities denominated in a currency other than the functional currency to which the Group's entities relate:

	USD RMB'000	EURO RMB'000	JPY RMB'000	SGD RMB'000	HK\$ RMB'000
<b>Financial assets</b>					
Trade receivables	52	4	–	–	–
Cash and bank balances	12,817	–	14,060	5	2,996
	12,869	4	14,060	5	2,996
<b>Financial liabilities</b>					
Other borrowing	–	–	–	–	22,145

In view of the nature of the Group's business, which spans several countries, foreign exchange risks will continue to be an integral aspect of its risk profile in the future. Currently, the Group neither has a formal foreign currency hedging policy nor conducts hedging exercise to reduce foreign currency exposure. The Group will continue to monitor its foreign exchange exposure.

## CAPITAL COMMITMENTS

As at 31 December 2019, the Group's capital commitment which had been contracted for but not provided in the financial statements amounted to approximately RMB34.4 million (2018: RMB15.3 million).



# Management Discussion and Analysis

## CHARGE ON ASSETS

Total secured interest-bearing bank borrowings were approximately RMB334.0 million as at 31 December 2019 (2018: RMB384.0 million).

As at 31 December 2019, the Group's interest-bearing bank borrowings were guaranteed by certain related parties of the Group and secured against pledge of certain of the Group's property, plant and equipment, right-of-use assets, and bank deposits.

## CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities (2018: Nil).

## EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2019, the Group employed a total of 3,017 employees (2018: 3,849 employees) in the PRC. The Group's emolument policy is formulated based on the industry practices and performance of individual employee. During the year under review, the total staff costs (including Directors' emoluments) were in the amount of approximately RMB202.4 million (2018: RMB204.1 million). The Company has not adopted any share option scheme for its employees.

## SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Except for investment in subsidiaries, the Group did not hold any significant investment in equity interest in other company. The Group did not have any material acquisitions or disposals of subsidiaries or associated companies during the year ended 31 December 2019.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year ended 31 December 2019.

## EVENT AFTER THE REPORTING DATE

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, it has certain impacts on the Group's business operation and overall global economy. According to the preliminary assessment, it is expected that the financial performance in the first quarter of 2020 will be affected to some extent. Subject to the development and spread of COVID-19 subsequent to the date of the financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. It is not practicable to estimate the full financial effect of the coronavirus outbreak may have on the Group's business as at the date when the financial statements are authorised to issue.







# Corporate Governance Report

## (I) STATEMENT OF COMPLIANCE

It is the policy of the Company to manage the affairs of the Group in accordance with the appropriate standards for good corporate governance. Summarised below is a statement on how the Company during the year ended 31 December 2019 has applied the principles and complied with the code provisions as set out in the Corporate Governance Code in effect during the year ended 31 December 2019 (the "CG Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules" or the "Listing Rules"), save for certain deviation from the relevant Code Provision A.2.1 listed below.

### A. Directors

#### A.1 The Board

##### *Principle*

An issuer should be headed by an effective Board which should assume responsibility for its leadership and control and be collectively responsible for promoting its success by directing and supervising its affairs. Directors should take decisions objectively in the best interests of the issuer.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the issuer, and whether he is spending sufficient time performing them.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
A.1.1 At least 4 regular physical Board meetings should be held each year.	No	The Board has overall responsibility for the proper conduct of the Company's business.  Regular Board meetings are held on a quarterly basis and ad hoc Board meetings will be held as and when required.
A.1.2 All Directors should be given an opportunity to include matters in the agenda for regular Board meetings.	No	Draft notice and agenda for regular Board meetings are provided to all Directors for comments and consideration and inclusion of any matters for deliberation at the meetings.
A.1.3 Notice of at least 14 days should be given of a regular Board meeting. For all other Board meetings, reasonable notice should be given.	No	Reasonable notice will be given for all other Board meetings.
A.1.4 Minutes of Board and Board Committees meetings should be kept by a duly appointed secretary of the meeting and should be open for inspection on reasonable notice by any Director.	No	Minutes of the meetings of the Board, the Audit Committee, the Nomination Committee, and Remuneration Committee are kept by the Company Secretary. Such minutes are available for inspection on reasonable notice by any Director.
A.1.5 Draft and final versions of minutes of Board meetings should be sent to all Directors for their comments and records within a reasonable time after the Board meeting is held.	No	Draft and final versions of minutes of Board meetings are sent to all Directors for their comments and records within a reasonable time.



# Corporate Governance Report

Summary of Code Provisions	Any deviations?	Governance practices of the Company
A.1.6 There should be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer's expense.	No	The Board has agreed on a procedure to enable the Directors to seek independent professional advice in appropriate circumstances, at the Company's expense, to assist them to perform their duties.
A.1.7 If a substantial shareholder or a Director has a conflict of interest in a material matter to be considered by the Board, the matter should be dealt with by a physical Board meeting rather than a written resolution.	No	<p>Material transactions with connected persons will be considered at Board meetings whereat the Directors may consider, if appropriate, granting approval in-principle for the proposed transactions and authorising the final forms thereof be further approved by way of circulation of written resolution or by a Board committee set up for that purpose.</p> <p>The Company's Bye-laws and the Bermuda laws allow the attendance of the Company's Directors by means of, inter alia, telephone or electronic facilities and such attendance shall be counted as attendance at a physical Board meeting.</p>
A.1.8 Issuer should arrange appropriate insurance cover in respect of legal action against its Directors.	No	All Directors are provided with appropriate insurance cover in respect of legal action against them.



# Corporate Governance Report

## A.2 Chairman and Chief Executive

### Principle

There are two key aspects of the management of every issuer – the management of the Board and the day-to-day management of business. There should be a clear division of these responsibilities to ensure a balance of power and authority, so that power is not concentrated in any one individual.

### Summary of Code Provisions

### Any deviations?

### Governance practices of the Company

A.2.1 Roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.

Yes

The Chairman of the Board, Mr. Fang Yu, is also the CEO. With the establishment of various Board Committees with power and authority to perform key functions and putting in place internal controls to allow effective oversight by the Board of the Group's business, the Board is of the view that these enable the Board to exercise objective decision-making in the interests of the Group. The Board believes that Mr. Fang Yu's dual role as Chairman and CEO allows for more effective and efficient planning and execution of business decisions and strategies, and is beneficial to the business prospects and management of the Group. Although Mr. Fang Yu performs both the roles of Chairman and CEO, the division of responsibilities between the Chairman and CEO is clearly established. The two roles are performed by Mr. Fang Yu distinctly. The Company considers that it is the long term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.



# Corporate Governance Report

Summary of Code Provisions	Any deviations?	Governance practices of the Company
A.2.2 The Chairman should ensure that all Directors are properly briefed on issues arising at Board meetings.	No	All Directors are properly briefed on issues arising at Board meetings.
A.2.3 The Chairman should ensure that Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable.	No	Adequate business documents and information about the Group are provided to all Directors in a timely manner.
A.2.4 The Chairman provides leadership for the Board and should ensure that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner.	No	The Board, under the leadership of the Chairman, works effectively and performs its responsibilities with all key and appropriate issues discussed in a timely manner.  Comments on the draft notice and agenda of regular Board meetings and matters proposed to be included in such drafts by any Director will be duly considered before finalisation.
A.2.5 The Chairman should ensure that good corporate governance practices and procedures are established.	No	The Board establishes and maintains good governance practices and procedures.
A.2.6 The Chairman should encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that it acts in the best interests of the issuer.	No	All Directors are encouraged to make a full and active contribution to the Board's affairs and to voice their concerns if they have different views. Directors are given sufficient time for discussion at Board meetings. All Directors endeavour to act in the best interests of the Company.
A.2.7 The Chairman should at least annually hold meetings with the Independent Non-executive Directors ("INEDs") without the presence of other Directors.	No	During the year under review, the Chairman of the Company had held a meeting with the INEDs of the Company without the presence of other Directors.
A.2.8 The Chairman should ensure that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole.	No	Shareholders' Communication Policy has been established by the Board to ensure that an effective system of communication with shareholders is in place. Shareholders are encouraged to participate in general meetings whereat members of the Board and Board Committees are available to answer their questions.



# Corporate Governance Report

## Summary of Code Provisions

A.2.9 The Chairman should promote a culture of openness and debate by facilitating the effective contribution of Non-executive Directors (“NEDs”) and ensuring constructive relations between Executive and NEDs.

## Any deviations?

No

## Governance practices of the Company

All Directors are encouraged to openly share their views on the Company’s affairs and issues and they are entitled to have access to Management who will respond to queries raised by the Directors as promptly and fully as possible.

The Board has agreed on a procedure to enable the Directors to seek independent professional advice in appropriate circumstances, at the Company’s expense, to assist them to perform their duties.

### A.3 Board composition

#### Principle

The Board should have a balance of skills and experience and diversity of perspectives appropriate to the requirements of the issuer’s business. It should ensure that changes to its composition can be managed without undue disruption. It should include a balanced composition of Executive and NEDs (including INEDs) so that there is a strong independent element on the Board, which can effectively exercise independent judgement. Non-executive Directors should be of sufficient calibre and number for their views to carry weight.

## Summary of Code Provisions

A.3.1 INEDs should be identified in all corporate communications that disclose the names of Directors.

## Any deviations?

No

## Governance practices of the Company

Composition of the Board at the prevailing time throughout the year, by category of Directors, including names of Executive Director(s), NED(s) and INEDs, has been disclosed in all corporate communication.

A.3.2 Issuer should maintain on the websites of its own and the Exchange an updated list of its Directors identifying their roles and functions and whether they are INEDs.

No

An updated list of the Company’s Directors identifying their roles and functions and whether they are INEDs is available on the websites of the Company and the Exchange.



# Corporate Governance Report

## A.4 *Appointments, re-election and removal*

### *Principle*

There should be a formal, considered and transparent procedure for the appointment of new Directors. There should be plans in place for orderly succession for appointments. All Directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any Director.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
A.4.1 NEDs should be appointed for a specific term, subject to re-election.	No	The NEDs and INEDs should be appointed for a specific term, subject to re-election. The INEDs of the Company, Mr. Chan Ka Yin, Mr. Song Xuejun and Mr. Lu Zhiwen, are each appointed by the Company for a one-year term. Their appointment may be terminated by either party giving at least one month's written notice or in accordance with the terms of their appointment letters.
A.4.2 All Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every Director should be subject to retirement by rotation at least once every three years.	No	The Company's Bye-laws conform with this code provision whereby every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and Directors appointed by the Board to fill casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.
A.4.3 Re-appointment of any INED who has served more than 9 years should be subject to a separate resolution to be approved by shareholders and the papers to shareholders accompanying that resolution should include the reasons why the Board believes he is still independent and should be re-elected.	No	There is no INED who has served more than 9 years.



# Corporate Governance Report

## A.5 **Nomination Committee**

### *Principle*

In carrying out its responsibilities, the Nomination Committee should give adequate consideration to the Principles under A.3 and A.4 above.

<b>Summary of Code Provisions</b>	<b>Any deviations?</b>	<b>Governance practices of the Company</b>
A.5.1 A Nomination Committee should be established and be chaired by the Chairman of the Board or an INED and comprises a majority of INEDs.	No	The Board has established a Nomination Committee which is chaired by an INED. A majority of the members of the Nomination Committee are INEDs.
A.5.2 The Nomination Committee should have specific written terms of reference to include the prescribed specific duties.	No	The Nomination Committee has specific written terms of reference which contain all the specific duties as prescribed by the CG Code. Please refer to section (III)(C)(2) of this Report for the principal duties of the Nomination Committee.
A.5.3 The Nomination Committee should make available its terms of reference by including them on the websites of the Exchange and the issuer.	No	The Terms of reference of the Nomination Committee (including its role and functions) are available on the websites of the Exchange and the Company.
A.5.4 The Nomination Committee should be provided with sufficient resources to perform its duties.	No	The Nomination Committee is entitled to seek independent professional advice, at the Company's expenses, if it considers necessary in order to perform its duties.
A.5.5 Where the Board proposes a resolution to elect an individual as an INED at the general meeting, it should set out in the in the circular to shareholders and/or explanatory statements accompanying the notice of the relevant general meeting the reasons why it believes the individual should be elected and considers him to be independent.	No	For the proposed re-appointment of the retiring INED during the year under review, the Company has included in the circular to shareholders accompanying the notice of the relevant general meeting the reasons why the Board considered him to be independent and recommended him to be re-elected. Please refer to section (III)(C)(2) of this Corporate Governance Report for the process of re-appointment of Directors.





# Corporate Governance Report

## A.6 Responsibilities of Directors

### Principle

Every Director must always know his responsibilities as a Director of an issuer and its conduct, business activities and development. Given the essential unitary nature of the Board, NEDs have the same duties of care and skill and fiduciary duties as Executive Directors.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
A.6.1 Every newly appointed Director should receive a comprehensive, formal and tailored induction on appointment. Subsequently, he should receive such briefing and professional development as is necessary.	No	Every newly appointed Directors are given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. The Directors are updated on the latest developments regarding the Hong Kong Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to Directors will be arranged whenever necessary.
A.6.2 Functions of NEDs should include the following: <ul style="list-style-type: none"> <li>(a) participating in Board meetings to bring an independent judgement;</li> <li>(b) taking the lead where potential conflicts of interest arise;</li> <li>(c) serving on the audit, remuneration, nomination and other governance committees, if invited; and</li> <li>(d) scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting.</li> </ul>	No	All INEDs of the Company in office during the year under review have duly performed these functions.
A.6.3 Every Director should give sufficient time and attention to the issuer's affairs.	No	The Directors continue to give appropriate time and attention to the affairs of the Company.



# Corporate Governance Report

## Summary of Code Provisions

A.6.4 Written guidelines should be established by the Board for relevant employees' dealings in the securities of the issuer, which shall be on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules.

"Relevant Employee" includes any employee or a Director or employee of a subsidiary or holding company who is likely to possess inside information in relation to the Issuer or its securities.

A.6.5 All Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The issuer should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director.

## Any deviations? Governance practices of the Company

No

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules in force during the year ended 31 December 2019 as its code of conduct regarding securities transactions by its Directors.

The Model Code has been extended and has become equally applicable to dealings in the securities of the Company by members of Management as included in the Company's latest Annual Report or as otherwise resolved by the Board from time to time.

No

All Directors are provided with continuous updates and briefings on the latest changes or material developments in statutes, the Listing Rules, corporate governance practices, etc. and are encouraged to participate in continuous professional development programmes, at the Company's expenses, to update and enhance their knowledge and skills for performing Directors' roles and responsibilities.

The Company maintains and updates a record of training received by the Directors. Please refer to sections (III)(A)(7) to (9) of this Corporate Governance Report for further details.



# Corporate Governance Report

Summary of Code Provisions	Any deviations?	Governance practices of the Company
A.6.6 Each Director should disclose to the issuer at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. The identity of the public companies or organisations and an indication of the time involved should also be disclosed.	No	Each Director is required, on appointment, to disclose to the Board his directorships in public companies or organisations and other significant commitments, and provides continuous updates, on a regular basis, for any change therein, with an indication of the time involved.
A.6.7 INEDs and other NEDs, as equal Board members, should give the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings to gain and develop a balanced understanding of the views of shareholders.	No	<p>During the year under review, all INEDs of the Company have given the Board and any Board Committees on which they served the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation at meetings of the Board and relevant Board Committees (as the case may be).</p> <p>Save for Mr. Song Xuejun, all INEDs of the Company had attended annual general meeting of the Company ("AGM") held on 17 June 2019. They were available to answer questions thereat.</p>
A.6.8 INEDs and other NEDs, should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.	No	<p>There was no other general meeting held during the year under review.</p> <p>Adequate business documents and information about the Group were provided to all Directors in a timely manner. The INEDs in office during the year were able to provide independent, constructive and informed comments and decisions on the development of the Company's strategy and policies.</p>



# Corporate Governance Report

## A.7 Supply of and access to information

### Principle

Directors should be provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
A.7.1 For regular Board meetings, and as far as practicable in all other cases, Board papers should be sent, in full, to all Directors at least 3 days (or other agreed period) before a Board or Board Committee meeting.	No	Board papers in respect of regular Board meetings, and as far as practicable in all other cases, are sent to all Directors or Board Committee members (as the case may be) at least 3 days (or other agreed period) before the relevant meetings.
A.7.2 Management has an obligation to supply the Board and its committees with adequate information in a timely manner. The Board and individual Directors should have separate and independent access to the issuer's Senior Management.	No	<p>The Company continues to supply the Board and its committees with adequate information in a timely manner.</p> <p>There are formal and informal contacts between the Board and the Management from time to time at Board meetings and other events.</p>
A.7.3 All Directors are entitled to have access to Board papers and related materials. Queries raised by Directors should receive a prompt and full response, if possible.	No	<p>Board papers, minutes and related corporate documentation are made available for inspection by all Directors.</p> <p>All Directors are entitled to have access to Management who will respond to queries raised by the Directors as promptly and fully as possible.</p>



# Corporate Governance Report

## B. Remuneration of Directors and Senior Management and Board Evaluation

### B.1 The level and make-up of remuneration and disclosure

#### Principle

An issuer should disclose its Directors' remuneration policy and other remuneration related matters. The procedure for setting policy on Executive Directors' remuneration and all Directors' remuneration packages should be formal and transparent. Remuneration levels should be sufficient to attract and retain Directors to run the company successfully without paying more than necessary. No Director should be involved in deciding his own remuneration.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
B.1.1 The Remuneration Committee should consult the Chairman and/or Chief Executive about their remuneration proposals for other Executive Directors and have access to independent professional advice if necessary.	No	The Remuneration Committee consults the Chairman of the Company on formulating proposals on the remuneration of other Executive Directors (except his associates).  During the financial year, the Remuneration Committee did not require the service of an independent professional advice.
B.1.2 The terms of reference of the Remuneration Committee should include, as a minimum, the prescribed specific duties.	No	Terms of reference of the Remuneration Committee contain all the specific duties as prescribed by the CG Code. Please refer to section (III)(B)(2) of this Corporate Governance Report for the principal duties of the Remuneration Committee.
B.1.3 The Remuneration Committee should make available its terms of reference by including them on the websites of the Exchange and the issuer.	No	Terms of reference of the Remuneration Committee (including its role and functions) are available on the websites of the Exchange and the Company.
B.1.4 The Remuneration Committee should be provided with sufficient resources to perform its duties.	No	The Remuneration Committee is entitled to seek independent professional advice, at the Company's expenses, if it considers necessary in order to perform its duties.
B.1.5 Issuers should disclose details of any remuneration payable to members of Senior Management by band in their annual reports.	No	Remuneration paid to members of Senior Management has been disclosed by band in the Company's Annual Report. Please refer to section (III)(B)(6) of this Corporate Governance Report for details of remuneration payable to members of Senior Management by band.



# Corporate Governance Report

## C. Accountability and Audit

### C.1 Financial reporting

#### *Principle*

The Board should present a balanced, clear and comprehensible assessment of the issuer's performance, position and prospects.

<b>Summary of Code Provisions</b>	<b>Any deviations?</b>	<b>Governance practices of the Company</b>
C.1.1 Management should provide sufficient explanation and information to the Board to enable it to make an informed assessment of financial and other information put before it for approval.	No	The Directors are regularly provided with relevant reports and updates on the Company's business and financial information.
C.1.2 Management should provide all members of the Board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the Board and each Director to discharge their duties.	No	All Directors are provided with monthly updates giving a balanced and understandable assessment of the Group's performance, position, recent developments and prospects, where applicable, in sufficient details to keep the Directors abreast of the Group's affairs in order to perform their duties.



# Corporate Governance Report

## Summary of Code Provisions

C.1.3 The Directors should acknowledge in this Corporate Governance Report their responsibility for preparing the accounts. There should be a statement by the auditor about their reporting responsibilities in the Auditor's Report on the financial statements. Unless it is inappropriate to assume that the Company will continue in business, the Directors should prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary. Where the Directors are aware of material uncertainties relating to events or conditions that may/cast significant doubt on the issuer's ability to continue as a going concern, they should be clearly and prominently disclosed and discussed at length in this Corporate Governance Report. The Corporate Governance Report should contain sufficient information for investors to understand the severity and significance of matters. To a reasonable and appropriate extent, the issuer may refer to other parts of the Annual Report. These reference should be clear and unambiguous and the Corporate Governance Report should not contain only a cross-reference without any discussion of the matter.

## Any deviations? Governance practices of the Company

No

The Directors are responsible for preparing accounts for each financial year which give a true and fair view of the financial position of the Group and of the financial performance and cash flows of the Group for the year then ended. In preparing accounts for the year ended 31 December 2019, the Directors have:

- (i) selected suitable accounting policies and applied them consistently;
- (ii) made judgements and estimates that are prudent and reasonable; and
- (iii) prepared accounts on the going concern basis.

The Auditor's Report states the auditor's reporting responsibilities.

The Directors were aware of the material uncertainty related to going concern of the Company. Based on the accounting estimates and assumptions used in preparation of the financial statement, the Directors had reviewed and deliberated, notwithstanding that the Group's current liability exceeded its current assets and the significant bank borrowings and its short-term repayment term, considered the operations of the Group can continue as a going concern.

The Directors had also taken into consideration of the followings and were of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from 31 December 2019:-

1. Improve utilisation rate of facilities and implement measures to tighten cost controls over various operating expenses;
2. Active negotiation with banks to seek renewal of outstanding bank borrowings; and
3. Explore the availability of alternative source of financing.

For more details, please refer to Pages 88 and 89 under Notes to the Financial Statements of this Annual Report.



# Corporate Governance Report

Summary of Code Provisions	Any deviations?	Governance practices of the Company
C.1.4 The Directors should include in the separate statement containing a discussion and analysis of the group's performance in the annual report, an explanation of the basis on which the issuer generates or preserves value over the longer term and the strategy for delivering the issuer's objectives.	No	The Company's corporate strategy and long term business model are explained in the section headed "Management Discussion and Analysis" of the Company's Annual Report.
C.1.5 The Board should present a balanced, clear and understandable assessment in annual and interim reports and other financial disclosures required by the Listing Rules; and for reports to regulators and information disclosed under statutory requirements.	No	The Board endeavours to present a balanced, clear and understandable assessment of the Group's position in all corporate communications issued under statutory and/or regulatory requirements.

## C.2 Risk management and internal control

### Principle

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer's strategic objectives, and ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems. The Board should oversee Management in the design, implementation and monitoring of the risk management and internal control systems, and Management should provide a confirmation to the Board on the effectiveness of these systems.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
C.2.1 The Board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in the Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls.	No	<p>The Board through the Audit Committee, has conducted annual review of the effectiveness of the Group's systems of risk management and internal control, which cover all material controls including financial, operational, compliance and information technology risks.</p> <p>The Board is of the view that the Group maintains reasonably sound and effective systems of risk management and internal control relevant to its level of operations.</p> <p>Please refer to section (II) of this Corporate Governance Report headed "State of Risk Management and Internal Control" for the details.</p>
C.2.2 The Board's annual review should, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit and financial reporting functions.	No	The Company has outsourced its internal audit function to an external audit firm, namely Elite Partners Risk Advisory Services Limited. The Audit Committee and the Board are of the view that the internal auditors have the relevant qualifications and adequate resources to perform the functions effectively.





# Corporate Governance Report

Summary of Code Provisions	Any deviations?	Governance practices of the Company
<p>C.2.3 The Board's annual review should, in particular, consider:</p> <ul style="list-style-type: none"><li>(a) the changes, since the last annual review, in the nature and extent of significant risks, and the issuer's ability to respond to changes in its business and the external environment;</li><li>(b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;</li><li>(c) the extent and frequency of communication of monitoring results to the Board (or Board Committee(s));</li><li>(d) significant control failings or weaknesses that have been identified during the period have had, could have had, or may in the future have, a material impact on the issuer's financial performance or condition; and</li><li>(e) the effectiveness of the issuer's processes for financial reporting and Listing Rule compliance.</li></ul>	No	<p>The Board and the Audit Committee have through the internal auditors, conducted an annual review and considered the followings:</p> <ul style="list-style-type: none"><li>(a) The changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment have been considered.</li><li>(b) The scope and quality of management's ongoing monitoring of risks and of the internal control systems.</li><li>(c) The ongoing process and detailed monitoring results of the risk management and internal control systems are shared and communicated to the Board annually.</li><li>(d) No significant control failing or weakness were identified during the period which have had, could have, or may in the future have, a material impact on the Company's financial performance or condition.</li><li>(e) The Company's processes for financial reporting and Listing Rule compliance have been operating effectively.</li></ul>



# Corporate Governance Report

Summary of Code Provisions	Any deviations?	Governance practices of the Company
<p>C.2.4 Issuer should disclose, in the Corporate Governance Report, a narrative statement on how it has complied with the risk management and internal control code provisions during the reporting period. In particular, it should disclose:</p> <ul style="list-style-type: none"> <li>(a) the process used to identify, evaluate and manage significant risks;</li> <li>(b) the main features of the risk management and internal control systems;</li> <li>(c) an acknowledgement by the Board that it is responsible for the risk management and internal control systems and reviewing their effectiveness;</li> <li>(d) the process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects; and</li> <li>(e) the procedures and internal control for the handling and dissemination of inside information.</li> </ul>	<p>No</p>	<p>The Board has the ultimate responsibilities for the Group's risk management and internal control systems, which are managed through a number of practices and related policies and procedures established and renewed from time to time which were assessed, on the effectiveness and compliance, from time to time. The internal auditors report directly to the Audit Committee. In addition, internal control systems covering areas in relation to the Group's business nature and activities under the Committee of Sponsoring Organizations of the Treadway Commission framework were adopted.</p> <p>Please refer to section (II) of this Corporate Governance Report headed "State of Risk Management and Internal Control" for further details of the Group's risk management and internal control systems and the key process and procedures involved in the respective areas as required to be disclosed in this Report.</p> <p>With respect to procedures and internal controls for the handling and dissemination of inside information, the Group ensure that the inside information of the Group is to be disseminated to public in equal and timely manner in accordance with the applicable laws and regulations.</p>
<p>C.2.5 Issuer should have an internal audit function.</p>	<p>No</p>	<p>The Company has outsourced its internal audit function to an external audit firm, namely Elite Partners Risk Advisory Services Limited.</p>



# Corporate Governance Report

## C.3 Audit Committee

### Principle

The Board should establish formal and transparent arrangements to consider how it will apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the issuer's Auditors. The Audit Committee established under the Listing Rules should have clear terms of reference.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
C.3.1 Minutes of Audit Committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meetings should be sent to all committee members for their comments and records within a reasonable time after the meeting.	No	Minutes of the Audit Committee meetings are kept by the Company Secretary as Secretary of the Audit Committee.  Draft and final versions of minutes of Audit Committee meetings are sent to all committee members for their comments and records within a reasonable time.
C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of its Audit Committee for a period of 2 year from the date of his ceasing:  (a) to be partner of the firm;  or  (b) to have any financial interest in the firm,  whichever is later.	No	None of the Directors who served on the Audit Committee during the year under review were former partners of the external auditor.
C.3.3 The Audit Committee's terms of reference should include at least the prescribed specific duties.	No	The terms of reference of the Audit Committee contain at least the specific duties as prescribed by the CG Code in force during the year. Please refer to section (III)(D)(2) of this Corporate Governance Report for the principal duties of the Audit Committee.
C.3.4 The Audit Committee should make available its terms of reference by including them on the websites of the Exchange and the issuer.	No	The terms of reference of the Audit Committee (including its role and functions) are available on the websites of the Exchange and the Company.
C.3.5 Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer shall include in this Corporate Governance Report a statement from the Audit Committee explaining its recommendation and the reasons why the Board has taken a different view.	No	The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming AGM, BDO Limited be re-appointed as the external auditor. The Board endorsed the Audit Committee's recommendation on the re-appointment of the external auditor.



# Corporate Governance Report

Summary of Code Provisions	Any deviations?	Governance practices of the Company
C.3.6 The Audit Committee should be provided with sufficient resources to perform its duties.	No	The Audit Committee is entitled to seek independent professional advice, at the Company's expenses, if it considers necessary in order to perform its duties.
C.3.7 The terms of reference of the Audit Committee should also require it to review arrangements employees of the issuer can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and to act as the key representative body for overseeing the issuer's relations with the external auditor.	No	The terms of reference of the Audit Committee contain at least the specific duties as prescribed by the CG Code in force during the year. Please refer to section (III)(D)(2) of this Corporate Governance Report for the principal duties of the Audit Committee.

## D. Delegation by the Board

### D.1 Management functions

#### *Principle*

An issuer should have a formal schedule of matters specifically reserved for Board approval. The Board should give clear directions to Management on the matters that must be approved by it before decisions are made on the issuer's behalf.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
D.1.1 When the Board delegates aspects of its management and administration functions to Management, it must also give clear directions as to the management's powers.	No	The Board delegates management and administration functions to Management as it considers appropriate from time to time, with clear directions as to the Management's powers including circumstances where Management shall report back and obtain prior Board approval.



# Corporate Governance Report

Summary of Code Provisions	Any deviations?	Governance practices of the Company
D.1.2 The issuer should formalise the functions reserved to the Board and those delegated to Management and review those arrangements periodically.	No	<p>There is a formal schedule of matters reserved for the Board's decision, including:</p> <ul style="list-style-type: none"> <li>(i) Mergers and acquisitions;</li> <li>(ii) Investments and divestments;</li> <li>(iii) Acquisitions and disposals of assets;</li> <li>(iv) Major corporate policies on key area of operations;</li> <li>(v) Acceptances of bank facilities;</li> <li>(vi) Annual budget;</li> <li>(vii) Release of Group's half year and full year results; and</li> <li>(viii) Those matters which are likely to have a material impact on the Group's operating units and/or financial position as well as matters other than in the ordinary course of business.</li> </ul>
D.1.3 The issuer should disclose the respective responsibilities, accountabilities and contributions of the Board and Management.	No	Please refer to sections (III)(A)(1), (2) and (3) of this Corporate Governance Report for the respective responsibilities, accountabilities and contributions of the Board and Management.
D.1.4 Issuers should have formal letters of appointment for Directors who should clearly understand delegation arrangements in place.	No	A formal letter of appointment setting out the key terms and conditions of appointment had been entered into between the Company and individual Directors. Each Director understands the delegation arrangements in place.



# Corporate Governance Report

## D.2 Board Committees

### Principle

Board committees should be formed with specific written terms of reference which deal clearly with their authority and duties.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
D.2.1 The Board should give sufficiently clear terms of reference to Board Committees.	No	Clear terms of reference have been adopted for the Board Committees of the Company, namely the Audit Committee, the Remuneration Committee and the Nomination Committee.
D.2.2 The terms of reference of Board Committees should require them to report back to the Board on their decisions or recommendations, unless there are legal or regulatory restriction on their ability to do so.	No	This term has been included in the terms of reference of the relevant Board Committees.

## D.3 Corporate Governance Functions

Summary of Code Provisions	Any deviations?	Governance practices of the Company
D.3.1 The terms of reference of the Board (or a committee(s) performing the corporate governance functions) should include, as a minimum, the prescribed specific duties.	No	Terms of reference of the Board contain all the specific corporate governance duties as prescribed by the CG Code. Please refer to section (III)(A)(6) of this Corporate Governance Report of this Annual Report for the principal corporate governance duties of the Board.
D.3.2 The Board should perform or delegate to a committee or committees to perform the prescribed corporate governance duties.	No	The Board is responsible for performing the corporate governance duties as prescribed by the CG Code.



# Corporate Governance Report

## E. Communication with Shareholders

### E.1 Effective communication

#### Principle

The Board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use AGMs or other general meetings to communicate with them and encourage their participation.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
E.1.1 A separate resolution on each substantially separate issue should be proposed by the Chairman of a general meeting to avoid "bundling" resolutions unless they are interdependent and linked and in such case, the reasons and material implications should be explained in the notice of meeting.	No	A separate resolution is proposed on each substantially separate issue at a general meeting.
E.1.2 Chairman of the Board should attend the AGM and invite the Chairmen of the Audit, Remuneration, Nomination and any other Committees (as appropriate) to attend and in their absence, invite another member of the committee or failing this, his duly appointed delegate, to attend. These persons should be available to answer questions at the AGM.  Management should ensure the external auditor attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.	No	Save for Mr. Song Xuejun, Chairman of the Nomination Committee, and Wang Yuan, all the Chairman and/or other members of the Audit, Remuneration and Nomination Committees and the external auditor of the Company were attended and available to answer questions at the 2019 AGM.
E.1.3 The issuer should arrange for the notice to shareholders to be sent for AGMs at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.	No	During the year under review, more than 20 clear business days' notice period had been given for the 2019 AGM.
E.1.4 The Board should establish a shareholders' communication policy and review it regularly to ensure its effectiveness.	No	Shareholders' Communication Policy has been established by the Board and will be reviewed regularly to ensure its effectiveness.
E.1.5 The issuer should have a policy on payment of dividends and should disclose it in the annual report.	No	The Group has a dividend policy but does not have a fixed percentage of its distributable income. The policy on distribution of dividend depends on the results of the Group's cash flow and financial position, capital expenditure plan, debt repayment schedule, dividends received from its subsidiaries, industry conditions and prospects, and other factors deemed relevant by the Board of Directors.



# Corporate Governance Report

## E.2 Voting by poll

### Principle

The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
E.2.1 The Chairman of a meeting should provide an explanation on the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll.	No	During the year under review, procedures for conducting a poll were properly explained during the Company's general meeting proceedings.

## F. Company Secretary

### Principle

The Company Secretary plays an important role in supporting the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is responsible for advising the Board through the Chairman and/or the Chief Executive on governance matters and should also facilitate induction and professional development of Directors.

Summary of Code Provisions	Any deviations?	Governance practices of the Company
F.1.1 The Company Secretary should be an employee of the issuer and have day-to-day knowledge of the issuer's affairs. Where an issuer engages an external service provider as its company secretary, it should disclose the identity of a person with sufficient seniority (e.g. chief legal counsel or chief financial officer) at the issuer whom the external provider can contact.	No	Mr. Chen Xi, an employee of the Company was appointed as the Company Secretary with effect from 29 November 2019. His profile can be found on section entitled "Key Management" of the Company's Annual Report.
F.1.2 The Board should approve the selection, appointment or dismissal of the Company Secretary.	No	The selection, appointment or dismissal of the Company Secretary shall be approved by the Board as appropriate at Board meeting, as and when the occasion arises.
F.1.3 The Company Secretary should report to the Board Chairman and/or the Chief Executive.	No	The Company Secretary reports to the Board of Directors on Board matters.
F.1.4 All Directors should have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable law, rules and regulations, are followed.	No	All Directors have access to the advice and services of the Company Secretary on Board procedures and corporate governance matters as and when required.





# Corporate Governance Report

## (II) STATE OF RISK MANAGEMENT AND INTERNAL CONTROL

### (A) Board responsibilities

The Board, in addition to its statutory responsibilities to protect and enhance long-term shareholders' values, is responsible for the overall performance of the Group. It provides effective leadership, sets the Company's values and standards and ensures that the necessary financial and human resources are in place for the Company to achieve its objectives.

### (B) Internal controls

The Board recognises that it is responsible for the overall internal controls framework, but accepts that no cost effective internal control system will preclude all errors and irregularities, as the system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company does not have a risk management committee. However, Management regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. Management reviews all significant control policies and procedures and highlights all significant matters to the Board and Audit Committee. During the year, the Company's internal auditors were engaged to review the Group's business and operational activities and identify the significant risk areas and to recommend the appropriate measures to mitigate these risks.

The Audit Committee also reviews the effectiveness of the actions taken by Management on the recommendations made by the internal and external auditors and ensures that there are follow-up actions on the implementation. The effectiveness of the internal financial control systems and procedures is monitored by Management.

The Company has outsourced its internal audit function to an external audit firm namely, Elite Partners Risk Advisory Services Limited. The internal audit of the Group covers the review of financial, operational, information technology, compliance controls and risk management functions of the Group. Non-compliance and internal control weaknesses noted during the internal audits and their recommendations thereof are reported to the Audit Committee including Management's responses. The Audit Committee will review these findings and ensure that the recommendations are implemented. The internal auditors will follow up on the implementations in their next audit review.

The internal auditors report directly to the Chairman of the Audit Committee on internal audit matters and to the CEO on administrative matters.

The Audit Committee is of the view that the internal auditors have adequate resources to perform the internal audit function and have, to the best of their ability, maintained their independence from the audit activities. The Audit Committee reviews the adequacy and effectiveness of the internal audit function annually to ensure that the internal audit resources are adequate and that the internal audits are performed effectively.

The Board concurred with the Audit Committee's view, and supported by the management report and internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the Reporting Period, and considered that such systems are effective and adequate.

Based on the internal controls established and maintained by the Group, reviews conducted by the internal auditors, the Board, with the concurrence of the Audit Committee, is of the opinion that the internal controls and risk management system addressing the Group's financial, operational, compliance and information technology risks are sound and effective as at 31 December 2019. Management will continue to focus on improving the standard of internal controls and corporate governance.



# Corporate Governance Report

The Group's financial risk management is disclosed under Note 42 of the Notes to the Financial Statements on pages 139 to 148 of this Annual Report.

## (C) Statement from Directors

Based on the internal controls established and maintained by the Group, reviews conducted by the internal auditors, the Board, with the concurrence of the Audit Committee, is of the opinion that the internal controls and risk management system addressing the Group's financial, operational, compliance and information technology risks are sound and effective as at 31 December 2019. Management will continue to focus on improving the standard of internal controls and corporate governance.

## (III) OTHER INFORMATION

In addition to the information disclosed above, set out below is other information required to be disclosed pursuant to the rules on Corporate Governance Report contained in Appendix 14 of the Hong Kong Listing Rules in force during the year ended 31 December 2019.

## (A) BOARD OF DIRECTORS

- (1) The Board is responsible for the overall performance of the Group. It provides effective leadership, sets the Company's values and standards and ensures that the necessary financial and human resources are in place for the Company to achieve its objectives. The Board consists of five (5) Executive Directors and three (3) INEDs.
- (2) The Board delegates management and administration functions to Management as it considers appropriate from time to time, with clear directions as to the Management's powers including circumstances where Management shall report back and obtain prior Board approval. There is a formal schedule of matters reserved for the Board's decision, including:
  - (a) Mergers and acquisitions;
  - (b) Investments and divestments;
  - (c) Acquisitions and disposals of assets;
  - (d) Major corporate policies on key area of operations;
  - (e) Acceptances of bank facilities;
  - (f) Annual budget;
  - (g) Release of Group's interim and full year results; and
  - (h) Those matters which are likely to have a material impact on the Group's operating units and/or financial position as well as matters other than in the ordinary course of business.
- (3) The Board is collectively responsible for performing the corporate governance duties, including, inter alia, developing, reviewing and monitoring compliance with the Company's policies and practices on corporate governance to ensure that they accord with the appropriate standards for good corporate governance.
- (4) The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules in force during the year ended 31 December 2019 as its code of conduct regarding securities transactions by its Directors. Each of the Directors has confirmed, following specific enquiry by the Company, that during the year from 1 January 2019 to 31 December 2019 (both dates inclusive), he has complied with the required standard set out in the Model Code as contained in Appendix 10 of the Listing Rules in force during the said year.



# Corporate Governance Report

- (5) Details of Directors' attendance at the Board meetings, Board Committees meetings and General meetings, held for FY2019 are set out in the table below:

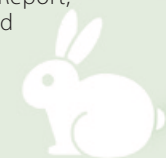
Meetings of	Board	AC	NC	RC	General Meeting
<i>Total held in FY2019</i>	4	3	1	1	1
<b>Attendance Record</b>					
<b>EXECUTIVE DIRECTORS</b>					
Fang Yu ( <i>Chairman and CEO</i> )	4	3 <sup>#</sup>	1	1 <sup>#</sup>	1
Gao Yanxu	4	2 <sup>#</sup>	1 <sup>#</sup>	1 <sup>#</sup>	1
An Fengjun	4	2 <sup>#</sup>	1 <sup>#</sup>	1 <sup>#</sup>	1
Luo Zhenwu	4	3 <sup>#</sup>	1 <sup>#</sup>	1	1
Wang Yuan*	1	1 <sup>#</sup>	1 <sup>#</sup>	1 <sup>#</sup>	–
Li Wei	4	3 <sup>#</sup>	1 <sup>#</sup>	1 <sup>#</sup>	1
<b>INEDs</b>					
Lau Choon Hoong*	3	2	1	1	1
Song Xuejun	3	3	1	1	–
Lu Zhiwen	4	3	1	1	1
Chan Ka Yin**	1	1	–	–	–

<sup>#</sup> By invitation

\* Resigned as Director on 7 November 2019

\*\* Appointed as Director on 7 November 2019

- (6) The principal corporate governance functions of the Board include the following:
- review and monitor the training and continuous professional development of Directors and senior management;
  - review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
  - approve policy initiatives, strategies and financial objectives of the Group and monitor the performance of management of the Company (the "Management"), including the release of financial results and timely announcements of material transactions;
  - approve annual budgets, major funding proposals, investment and divestment proposals, acquisitions and disposals of assets and convening of shareholders' meetings;
  - oversee the processes for evaluating the adequacy of internal controls, risk management including financial, operational, information technology and compliance risk areas identified by the Audit Committee that are required to be strengthened for assessment and its recommendation on actions to be taken to address and monitor the areas of concern;
  - oversee the enterprise risk management framework and program;
  - recommend the declaration of dividends;
  - approve all Board appointments and re-appointments/re-elections as well as appointments of key management personnel;
  - oversee proper conduct of the Company's business and assume responsibility for corporate governance;
  - ensure that the financial statements which give a true and fair view of the Company for each financial period are prepared in accordance with the International Financial Reporting Standards;
  - ensure the Company's compliance with the CG Code and disclosure in the Corporate Governance Report, taking into account the related reports and views of the Board Committees in their respective areas; and
  - develop, review and monitor the code of conduct applicable to employees and Directors.



# Corporate Governance Report

- (7) All Directors are committed to participate in continuous professional development programmes to update and enhance their knowledge and skills for performing Directors' roles and responsibilities, and would update and confirm to the Company, on a regular basis, the related programmes attended and training received by them. The Company maintains and updates a record of training received by each Director accordingly.
- (8) New Directors, on appointment, will be given a comprehensive formal induction covering the Group's businesses and the statutory and regulatory obligations of a Director of a listed company. All Directors are also furnished with continuous updates and briefings on the latest changes or material developments in statutes, the Listing Rules, and corporate governance practices, etc. The updates and briefings covered a broad range of topics including, inter alia, Directors' duties, dealing in securities by Directors, disclosure obligation of inside information, financial information and general information, and rules and regulations relating to notifiable transactions, connected transactions and corporate governance. During the year 2019, all Directors are provided with monthly updates giving a balanced and understandable assessment of the Group's performance, position, recent developments and prospects, where applicable, in sufficient details to keep the Directors abreast of the Group's affairs in order to perform their duties.
- (9) Pursuant to the code provision A.6.5 of the Code for the financial year ended 31 December 2019, all Directors had participated in continuous professional development in the following manner:

	<b>Type of trainings</b>
Fang Yu	A, B & C
Gao Yanxu	A, B & C
An Fengjun	A, B & C
Luo Zhenwu	A, B & C
Wang Yuan*	A, B & C
Li Wei	A, B & C
Lau Choon Hoong*	A, B & C
Song Xuejun	A, B & C
Lu Zhiwen	A, B & C
Chan Ka Yin**	A, B & C

\* Resigned as Director on 7 November 2019

\*\* Appointed as Director on 7 November 2019

A: attending internal briefing session in relation to corporate governance

B: attending seminars/courses/conference to develop professional skills and knowledge

C: receiving recent changes to the accounting standards and regulatory update and update by CEO/CFO on business and strategic developments of the Group

- (10) There is no relationship (including financial, business, family or other material/relevant relationship(s)) between members of the Board.
- (11) For FY2019, the Board had carried out their duties as stated in item (6) above.

## (B) Remuneration Committee

- (1) The Remuneration Committee, regulated by a set of written terms of reference, comprises the following Directors:

*INEDs*

Lu Zhiwen (Chairman)

Chan Ka Yin

Song Xuejun

*Executive Director*

Luo Zhenwu

- (2) The principal duties of the Remuneration Committee include the following:

- (a) review and recommend to the Board a framework of remuneration for the Board and key management personnel;
- (b) review and recommend the Directors' fees for Non-Executive Directors, which are subject to shareholders' approval at the AGM;



## Corporate Governance Report

- (c) assess, review and recommend the remuneration packages of the Executive Directors, key management personnel and those employees related to the Directors, CEO or Controlling Shareholders of the Company;
  - (d) review and approve compensation payable to Executive Directors and key management personnel for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
  - (e) review the service contract of the CEO and Executive Directors (if any), and letters of appointment of Non-Executive Directors;
  - (f) recommend to the Board on share option or long term incentive schemes which may be set up from time to time; and
  - (g) undertake such other functions and duties as may be delegated by the Board.
- (3) The Executive Directors' service agreements comprise a salary and a performance bonus to be determined at the discretion of the Board.

The Remuneration Committee had recommended to the Board an aggregate amount of HK\$720,000 as Directors' fees for INED for FY2019, taking into account factors such as effort, time spent and responsibilities of the Directors. The Board will table this at the forthcoming AGM for shareholders' approval.

The annual review of the remuneration packages of all Directors and key management personnel was carried out by the Remuneration Committee to ensure that their remuneration commensurate with their duties and responsibilities, performance, qualifications and experience as well as the Company's performance. For FY2019, the Remuneration Committee is satisfied with the remuneration packages of the Executive Directors and key management personnel and recommended the same for Board's approval. The Board had approved the Remuneration Committee's recommendation accordingly.

The Remuneration Committee would also in consultation with Management determine the target profit (the "Target Profit") for each financial year for the Executive Directors to achieve. The Target Profit which refers to the consolidated profit after tax and non-controlling interests (excluding extraordinary and exceptional items), would determine the performance incentive of the Executive Directors. For FY2019, no performance incentive was recommended as the Target Profit was not met.

The Executive Directors and key management personnel of the Group are rewarded based on actual results and no other incentives, the Group does not use any contractual provisions to reclaim incentive components of remuneration from its Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss of the Group.

The objective of the remuneration policies is to ensure that the Directors would be provided with the appropriate incentives to encourage enhanced performance and are, in a fair and reasonable manner, rewarded for their individual contributions to the success of the Group.

Each member of the Remuneration Committee had abstained from voting on any resolutions and making recommendations and/or participating in any deliberations of the Remuneration Committee in respect of his remuneration package or fees.

- (4) No Director or any of his associates is involved in deciding his own remuneration.
- (5) For FY2019, the Remuneration Committee had in general carried out its duties as stated in item (2) above.



## Corporate Governance Report

(6) The breakdown of each individual Director's remuneration, showing the level and mix for FY2019, is as follows:

<b>Name of Director</b>	<b>Salary</b> RMB'000	<b>Bonus</b> RMB'000	<b>Director's fees</b> RMB'000	<b>Other benefits</b> RMB'000	<b>Total</b> RMB'000
Fang Yu	-	-	4,406	-	4,406
Gao Yanxu	72	-	-	-	72
An Fengjun	400	-	-	-	400
Luo Zhenwu	-	-	1,498	-	1,498
Wang Yuan*	-	-	90	-	90
Li Wei	-	-	3,966	-	3,966
Lau Choon Hoong*	-	-	180	-	180
Song Xuejun	-	-	211	-	211
Lu Zhiwen	-	-	211	-	211
Chan Ka Yin**	-	-	16	-	16

\* Resigned as Director on 7 November 2019

\*\* Appointed as Director on 7 November 2019

The total remuneration paid to the senior management personnel, excluding Directors, amounted to RMB924,000 during FY2019.

The Group does not have a share-option or long-term incentive scheme in place.

The emoluments paid or payable to members of senior management under code provision B.1.5 of the CG Code were within the following bands:

	<b>2019</b> <b>No. of individuals</b>	2018 No. of individuals
Nil to HK\$1,000,000 (equivalent to Nil to RMB881,000)	<b>2</b>	-
HK\$1,000,001 to HK\$1,500,000 (equivalent to RMB881,000 to RMB1,322,000)	-	1
HK\$1,500,001 to HK\$2,000,000 (equivalent to RMB1,322,000 to RMB1,762,000)	-	1
	<b>2</b>	<b>2</b>



# Corporate Governance Report

## (C) Nomination Committee

- (1) The Nomination Committee is regulated by a set of written terms of reference. The majority, including the Nomination Committee Chairman, are INEDs. The Nomination Committee Chairman is not associated in any manner with any substantial shareholder of the Company.

The members of the Nomination Committee are as follows:

*INEDs*

Song Xuejun

(Chairman)

Chan Ka Yin

Lu Zhiwen

*Executive Director*

Fang Yu

- (2) The duties of the Nomination Committee shall include, but shall not be limited to the following:
- (a) review the structure, size, composition and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
  - (b) determine the policy for the nomination of directors, identify individuals suitably qualified to become members of the Board and may select or make recommendations to the Board on the selection of individuals nominated for directorship. In identifying suitable individuals, the Nomination Committee shall consider individuals on merit and against the objective criteria, with due regard for the benefits of diversity of the Board;
  - (c) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future;
  - (d) assess the independence of INED;
  - (e) do any such things to enable the Nomination Committee to discharge its powers and functions conferred on it by the Board;
  - (f) review the nomination procedures and the process and criteria for the identification, selection and nomination of candidates for directorship for the Board's approval; and
  - (g) review the Corporate Governance Report in the annual report for the Board's approval including disclosures on director independence, the policy for the nomination of directors performed by the Nomination Committee during the year.
- (3) The Nomination Committee will review the performance of each of the Directors and will recommend to the Board if their term of office would be renewed. The Remuneration Committee will review and recommend to the Board if there were any changes to their existing remuneration packages.

All Board appointments are made based on merit, in the context of the skills, experience, independence, background, gender, age, ethnicity, knowledge and other relevant factors which the Board as a whole requires to be effective.

The Nomination Committee has in place formal, written procedures for making recommendations to the Board on the selection and appointment of Directors. Such procedures would be activated when a vacancy on the Board arises or when the Board is considering making a new Board appointment either to enhance the core competency of the Board or for purpose of progressive renewal of the Board.



# Corporate Governance Report

In identifying suitable candidates, the Nomination Committee may:

1. advertise or use the services of external advisers to facilitate a search;
2. approach alternative sources such as the Hong Kong Institute of Directors; or
3. consider candidates from a wide range of backgrounds from internal or external sources.

After short listing the candidates, the Nomination Committee shall:

- (a) consider and interview all candidates on merit against objective criteria, taking into consideration that appointees have enough time available to devote himself or herself to the position; and
- (b) evaluate and agree to a preferred candidate for recommendation to and appointment by the Board.

Pursuant to its terms of reference, the Nomination Committee is required to determine if a Director has been adequately carrying out the duties as a Director of the Company, particularly if he has multiple board representations. In view of this, the Nomination Committee having considered the annual written confirmations from all the INEDs, concluded that such multiple board representations, if any, do not hinder each Director from carrying out his duties as a Director of the Company. The Board concurred with the Nomination Committee's views.

The Nomination Committee is of the view that putting a maximum limit on the number of listed company board representations is arbitrary, given that time requirements for each company vary, and every individual is made differently, thus one should not be presumptive as sufficiency of time cannot be objectively determined in all situations. The Board and the Nomination Committee are also satisfied that sufficient time and attention have been accorded by these Directors to the affairs of the Company. Save for Mr Chan Ka Yin, who sits on 2 listed companies include the Company, none of the Directors sits on other listed company.

In accordance with the Company's Bye-laws, each Director is required to retire at least once in every three years by rotation and all newly appointed Directors will have to retire at the next annual general meeting of the Company following their appointments. The retiring Directors are eligible to offer themselves for re-election.

Each of Mr. Fang Yu, Mr. Luo Zhenwu and Mr. Song Xuejun will retire pursuant to the Company's Bye-law 86(1) and Mr. Chan Ka Yin will retire pursuant to the Company's Bye-law 85(6) at the forthcoming AGM, and being eligible for re-election, have each offered themselves for re-election.

The Nomination Committee, has considered the attendance and participation of the retiring Directors at Board and Board Committee meetings, in particular, their contributions to the business and operation of the Company as well as Board processes. The Nomination Committee also reviewed the independence of the retiring INED with due consideration the guidelines set out in the CG Code, the current composition of the Board, the need for independence and his independence declaration, and is of the view that Mr Song Xuejun, INED is considered independent.

The Nomination Committee has recommended to the Board the re-election of Mr. Fang Yu, Mr. Luo Zhenwu, Mr. Song Xuejun and Mr. Chan Ka Yin as Directors of the Company at the forthcoming AGM. The Board had accepted the Nomination Committee's recommendation.

Each member of the Nomination Committee and/or Director shall abstain from voting on any resolutions and/or participating in deliberation in respect of his re-election as Director. Accordingly, Mr. Fang Yu, Mr. Luo Zhenwu, Mr. Song Xuejun, and Mr. Chan Ka Yin had abstained from voting on any resolutions and making any recommendations/participating in respect of their nomination for re-election as Directors.

An evaluation of the Board performance is conducted annually by the Nomination Committee to assess the effectiveness of the Board as a whole which examines factors such as Board composition, information flow to the Board, Board procedures, Board accountability, and standards of conduct of the Board members.





# Corporate Governance Report

For the year under review, the Nomination Committee had conducted a Board performance evaluation. The results of the Board performance evaluation were collated and presented to the Nomination Committee for discussion with comparatives from the previous year's results. The Nomination Committee was generally satisfied with the results of the Board performance evaluation for FY2019, which indicated areas of strengths and those that could be improved further. No significant issues were identified. The Nomination Committee had presented the results to Board members who agreed to work on those areas that could be improved further.

The Nomination Committee was of the view that given the business nature of the Group, the cohesiveness of the Board members and that the same INEDs sit on the various Board Committees, there would not be any value added in having separate assessments of Board committees.

- (4) For FY2019, the Nomination Committee had in general carried out its duties as stated in item (2) above.

## (D) Audit Committee

- (1) The Audit Committee, regulated by a set of written terms of reference, comprises three members, all of whom are INEDs. The members of the Audit Committee are:

*INEDs*

Chan Ka Yin

(Chairman)

Song Xuejun

Lu Zhiwen

- (2) The Board is of the view that the members of the Audit Committee are appropriately qualified, having the necessary accounting or related financial management expertise or experience as the Board interprets such qualification to discharge their responsibilities:

The principal functions of the Audit Committee are to:

- (a) review the interim and annual financial statements and results of the Company before submission to the Board for adoption focusing in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with statutory and regulatory requirements;
- (b) review with the external auditors, their scope, audit plans and audit reports as well as any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulation, which has or is likely to have a material impact on the Group's operating results or financial position, and Management's response thereto;
- (c) approve the internal and external audit plans and review results of their audits and recommendations as well as Management's responses to the recommendations;
- (d) review the assistance given by Management to the internal and external auditors to facilitate their audits and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of Management at least once a year and where necessary);
- (e) review and approve the appointment or re-appointment of internal and external auditors and matters relating to resignation or dismissal of the auditors;
- (f) ensure that arrangements are in place for staff of the Group and any other persons may, in confidence, raise concerns about possible improprieties in financial reporting or, other matters;
- (g) review annually the scope and results of the audit and its cost effectiveness as well as the independence and objectivity of the external auditors, including the volume of non-audit services provided by the external auditors to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors before confirming their nomination;
- (h) manage potential conflicts of interests, if any;



# Corporate Governance Report

- (i) undertake such other functions and duties as may be required by the statute or the Listing Manual of the SGX-ST and the Hong Kong Listing Rules; and
- (j) ensure the adequacy and effectiveness of the Group's internal controls including financial, operational, compliance, information technology controls and risk management system in order for the Board to provide an opinion on the adequacy of such controls.

The Audit Committee has the explicit powers to conduct or authorise investigation into any of the abovementioned matters.

The Audit Committee meets at least twice a year and when deemed appropriate to carry out its functions as sets out under its terms of reference. The Audit Committee has full access to and the co-operation of Management, has full discretion to invite any Directors and executive officers to attend its meetings, and has reasonable adequate resources to enable it to discharge its functions.

- (3) Three Audit Committee meetings were held in FY2019 to:
- (a) discuss and review the half-year and annual financial statements and results of the Company before submission to the Board for adoption;
  - (b) discuss and review the audit plans and audit reports with the internal and external auditors;
  - (c) discuss and review the adequacy and effectiveness of the internal control and risk management systems and made recommendations to the Board for improvement of internal controls and risk management;
  - (d) discuss and review the nomination and appointment or re-appointment of internal and external auditors;
  - (e) meet with the internal and external auditors without the presence of Management to discuss the results of their audit findings and their evaluation of the Group's system of accounting and internal controls, set out in their respective reports;
  - (f) ascertained that both the internal and external auditors have had the full co-operation of Management in carrying out their work;
  - (g) the related party transactions, connected transactions and continuing connected transactions (as defined under the Hong Kong Listing Rules); and
  - (h) keep abreast of accounting standards and discuss and review issues that could potentially impact financial reporting through quarterly updates and advice from the external auditors.

The Audit Committee has recommended to the Board the nomination of BDO Limited, Certified Public Accountants, Hong Kong as auditor at the forthcoming AGM.

The Board concurred with the Audit Committee's recommendation.

The Audit Committee has also put in place a "whistle-blowing" policy whereby staff of the Group and any other persons may raise concerns on financial improprieties, fraudulent acts or other matters and ensure that arrangements are in place for investigation.

Details of the whistle-blowing policies and arrangements are posted on the Company's website. The website provides a feedback channel for any complainant to raise possible improprieties to the Audit Committee.

There was no incident of whistle-blowing reported for FY2019.

- (4) For FY2019, the Audit Committee had in general carried out its duties as stated in item (2) above.



# Corporate Governance Report

## (E) Auditors' Remuneration

The Auditors, BDO Limited, have affirmed their independence in this respect. Audit services and non-audit services rendered by the external auditor amounted to RMB1,657,000 and RMB383,000 respectively.

## (F) Shareholders' Rights

At the annual general meetings, the shareholders will be given an opportunity to voice their views and seek clarification from the Directors and members of the senior management.

### ***Procedures for shareholders to convene a special general meeting***

In accordance with the Company's Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Bermuda Companies Act.

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the re-election of the retiring Directors.

All votes of the shareholders at the shareholders' meeting will be taken by poll. Poll results will be posted on the websites of the Company, the Stock Exchange and the Singapore Exchange Securities Trading Limited (the "SGX-ST") after the meeting.

### ***Procedures for raising enquiries***

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "Corporate Information" of this Annual Report).

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the Company's principal place of business in Hong Kong.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

### ***Procedures and contact details for putting forward proposals at shareholders' meetings***

To put forward proposals at a general meeting of the Company, shareholder should lodge a written notice of his/her/its proposal (the "Proposal") with his/her/its detailed contact information to the Company's principal place of business in Hong Kong.

The identity of such shareholder and his/her/its request will be verified with the Company's Hong Kong share registrar and upon confirmation by the Hong Kong share registrar that the request is proper and in order and made by a shareholder of the Company, the Board will determine in its sole discretion whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.



# Corporate Governance Report

The notice period to be given to all the shareholders of the Company for consideration of the Proposal raised by such shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

- (1) Notice of not less than 21 clear days and not less than 20 clear business days in writing if the Proposal requires approval in an annual general meeting;
- (2) Notice of not less than 21 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of a special resolution in an extraordinary general meeting; and
- (3) Notice of not less than 14 clear days and not less than 10 clear business days in writing if the Proposal requires approval in an extraordinary general meeting other than by way of a special resolution of the Company.

The Group has no significant change in constitutional documents during the year.

## **(G) Risk Management and Internal Control**

The Board is overall responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group established and maintained appropriate and effective risk management and internal control systems.

The Audit Committee reviews the risk management and internal controls that are significant to the Group on an on-going basis. The Audit Committee would consider the adequacy of resource, qualifications and experience and training of staff and external advisor of the Group's accounting, internal audit and financial reporting function.

The management of the Group is responsible for designing, maintaining, implementing and monitoring of the risk management and internal control system to ensure adequate control in place to safeguard the Group's assets and stakeholder's interest.

The Group has established risk management procedures to address and handle all the significant risks associate with the business of the Group. The Board would perform annual review on any significant change of the business environment and establish procedures to response the risks result from significant change of business environment. The risk management and internal control systems are designed to mitigate the potential losses of the business.

The management would identify the risks associate with the business of the Group by considering both internal and external factors and events which include political, economic, technology, environmental, social and staff. Each of risks has been assessed and prioritised based on their relevant impact and occurrence opportunity. The relevant risk management strategy would be applied to each type of risks according to the assessment results, type of risk management strategy has been listed as follows:

- Risk retention and reduction: accept the impact of risk or undertake actions by the Group to reduce the impact of the risks;
- Risk avoidance: change business process or objective so as to avoid the risk;
- Risk sharing and diversification: diversify the effect of the risk or allocate to different location or product or market;
- Risk transfer: transfer ownership and liability to a third party.



# Corporate Governance Report

The internal control systems are designed and implemented to reduce the risks associated with the business accepted by the Group and minimise the adverse impact results from the risks. The risk management and internal control system are design to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During 2019, the Group has engaged an external advisory firm to undertake the internal audit function to ensure the effectiveness and efficiency of the risk management and internal control system of the Group. There is no significant deficiency and weakness on the internal control system has been identified by the external advisory firm for the year ended 31 December 2019.

The Board considered that, for the year ended 31 December 2019, the risk management and internal control system and procedures of the Group, covering all material controls including financial, operational and compliance controls and risk management functions were reasonably effective and adequate.

## **(H) Investor Relations**

The Company has an internal investor relations function which focuses on facilitating communications with shareholders and analysts on a regular basis, attending to their queries or concerns and keeping them apprised of the Group's corporate developments and financial performance. During such interactions, the Company solicits and understands the views of shareholders and the investment community.



# Environmental, Social and Governance Report

The Group adheres to the core values of “Build together, share together”. This report was prepared in accordance with the Environmental, Social, Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Unless otherwise stated and explained in this report, the Group complied with the provisions set out in the Reporting Guide.

This Environmental, Social, Governance (“ESG”) Report of the Group displayed the Group’s performance and progress on environmental, social and governance matters for the year ended 31 December 2019. This also detailed the policies and compliance status of the laws and regulations relevant to the Group’s business and its key stakeholders for the year ended 31 December 2019.

## THE GROUP

The Group is one of the largest rabbit and chicken meat producer and processor groups in the PRC. As a leading corporation in the industry, the Group has always promoted its mission as “Creating balance of nutrition, green and healthy food.” To reduce the Group’s environmental impact and create value in the community, the Group seeks every opportunity to incorporate sustainability standards and practices into all aspects of its business. Also, Management of the Group sees social responsibility as the fundamental duty of the Group to contribute to the society in which it is brought up. The Group believes that this is much more so for a group that participates in activities that help the underprivileged.

## ENVIRONMENTAL

The Group’s rabbit and chicken meat business are closely associated with environmental matters and the usage of natural resources. The Group has established a set of management policies and measures on environmental protection and natural resources conservation to help ensure the sustainable operation of the Kangda. By qualifying with ISO 14001, the Group has a successful and systematic framework to manage the immediate and long term environmental impacts of an organization’s products, services and processes.

### *Emissions*

The Group has taken strict control to prevent waste discharge into the air, water and land. It is the Group’s policy to maintain the manufacturing process in an efficient and effective manner to reduce the usage of energy and consequently the emissions. All operations in PRC are under governed by Environmental Protection of the People’s Republic of China Prevention, Control of Atmospheric Pollution and Urban Drainage and Sewage Treatment Ordinance. The operation of the Group is governed by the Environmental Protection Law of the PRC and the guidelines for the environmental requirement of local government. Any violation of these environmental regulations may result in temporary suspension of production. During the year ended 31 December 2019, the Management of the Group is not aware of any non-compliance of these environmental regulations.



# Environmental, Social and Governance Report

## Emission management

In respect of hazardous waste produced, the Management of the Group believes the operations of the Group met the requirements of "discharge standard of pollutants for livestock and poultry breeding" in respect of the discharge of odour associated pollutants. For example, exhaust gas produced from incineration of deceased livestock produces is discharged through a 20-meter-high pipe. Further, the Group has implemented the emissions standard requirements in the "Environmental sanitation standard for incineration of medical treatment wastes" (《醫療廢物焚燒環境衛生標準》). Also, soot and fumes produced during the food processing are discharged through 1.5 meters smoke pipe which is at the top of the building. The Group has implemented "Emission Standard of Cooking Fume" 《飲食業油煙排放標準》 in Shandong Province to ensure soot fumes are purified accordingly. The Management believes that the production facilities do not produce any substantial hazardous waste. The Management believes that a fair assessment on the effectiveness of these reduction initiatives and results achieved would require a longer period to observe, hence the results will be disclosed when Management deemed appropriate.

Type of Emissions	Emission (kg)	Intensity (per million RMB revenue)
Nitrogen oxides ("NO <sub>x</sub> ")	7	N/A
Sulphur oxide ("SO <sub>x</sub> ")	1	N/A
Carbon dioxide ("CO <sub>2</sub> ")		
Scope 1 – Direct emissions from fuel combustion	248,040	176
Scope 2 – Indirect emissions from purchased electricity	20,332,031	14,415
Scope 3 – Other indirect emissions	6,129,722	4,346
<b>Total CO<sub>2</sub> emissions</b>	<b>26,709,801</b>	<b>18,937</b>

## Noise management

The Group has implemented sound-absorbing, sound-insulating, and vibration-reducing measures to reduce noise which is generated from the equipment. The Group has compiled the standard under "Emission standard on industrial noise" (《工業企業廠界環境雜訊排放標準》).

## Residue waste management

Livestock excrement is sent to the excrement separator and transported to a corresponding manure fermentation pool for processing. Because feces can be processed into a type of biological fertilizer, the Group has introduced a method for the fermentation and rechanneling of waste product in a manner that minimizes harm to the environment and to ensure no hazardous waste is produced and emitted to the environment. The urine of animals is effectively separated and channeled through a sewage pipe, thereby transferring to a sewage purification treatment pool.

In terms of non-hazardous waste produced, the Group produced about 12 tonnes of domestic waste like the residue of vegetable. The intensity of non-hazardous waste produced is about 9.5kg per million RMB revenue. The Group sends domestic waste to Jiaonan City Domestic Garbage Treatment Center for centralized treatment, minimizing the effect of the environment. The Group entrusts qualified disposal waste units to dispose of the packaging of immune drugs.



# Environmental, Social and Governance Report

## ***Use of resources***

The Group would use certain resources in all its activities including food processing, sourcing and procurement. The Group's operation is in line with the national industrial policy. The Group implements the environmental protection measures proposed and the pollutants can reach the standard emission. The Group also makes good use of technology to develop the business and reduce the energy consumption, minimizing the pollution of the environment.

The Group has implemented the following policies to reduce the use of resources:

Water	Use water-saving facilities and machineries;  Encourage employee to turn off the tap to prevent long flowing water and report the leakage of wate and dripping taps; and
Electricity	Upgrade hardware to improve energy efficiency;  Encourage employees to turn off unused electrical appliances and lightings  Install shade net to lower room temperature and maintain a proper room temperature
Solid wastes	Promote paperless office to reduce the use of paper





# Environmental, Social and Governance Report

During production and food processing, electricity and steam are our primary direct impact on the environment. Replacement of environmentally friendly machineries had increased the energy efficiency and lower the adverse impact brought to the natural environment.

During the process of the rearing and the production of processed meat, water is mainly used for cleaning, production, sterilization, boiler operation and cooking. The Company would observe any relevant laws and regulations in sourcing water and to ensure that there is no issue in sourcing water that is unfit for purpose, and encourage water efficiency initiatives where deemed applicable and practical.

## *Packaging materials*

The Group tries to use the least basic packaging materials to pack the products to facilitate transportation and maintain the product's quality. The packaging materials are mainly packaging bags and boxes for processed rabbits and chickens, hatchable eggs, vegetable and pet food.

During the year ended 31 December 2019, resources and the packaging materials consumed by the Group and their intensity were as follows:

<b>Resources utilisation</b>	<b>Unit</b>	<b>Usage</b>	<b>Intensity</b> (per million RMB revenue)
Electricity	kWh	25,257,350	17,907
Water	Tonne	301,769	214
Steam	Tonne	24,918	18
Paper	Kg	123	0.09
Biomass	Tonne	1,951	1
Natural gas	m <sup>3</sup>	114,727	81
Paper and paper packaging materials	Tonne	785	0.6



# Environmental, Social and Governance Report

## ***The environmental and natural resources***

To mitigate the impacts on the environment and natural resources, the management of the Group would evaluate and implement policies to reduce the effect, such as controlling and reducing the energy usage of food processing.

In a bid to create a sustainable environment, the Group has implemented a set of energy-saving and efficiency enhancement initiatives. For example, the Group has implemented a waste-water processing system, further the Group carries out regular maintenance work to maintain the efficiency of machines.

The Group also strengthens management to prevent biogas from polluting the surrounding area. The Group possesses pollution-prevention facilities during any construction that takes place.

## **SOCIAL**

As a social responsible enterprise in the PRC, the Group focuses on all stakeholders including employees, customers, suppliers, etc. The Group endeavors to contribute to the society.

### ***Employment***

The Group is operated in a labour-intensive industry. The Group truly believes in the idea of “employees are the most vital assets” for building social sustainable value. During the year ended 31 December 2019, the Group has complied with all relevant labour and employment law and regulations.

#### *Recruitment*

At the beginning of every year, each department of the Group is required to set out an organization structure, recruitment budget, regarding the operation goals for the coming year. The management would make regular recruitment (e.g. quarterly). The human resources department staffs would guide the newly joined employees including detail of posts, corporate structure, development strategies and management, motivation scheme, etc. Human resources department would strictly follow the Group’s recruitment policy and keep proper records step by step.

#### *Entry/On-the-job*

In order to motivate the employees, the Group provided a package of benefits such as in-house training, severance payment, etc. The Group would mostly recruit its employees through on the open job market or local agents. Management of the Group would ensure their office would comply with remunerations level set by the local government. It is also the Group’s policy to evaluate the performance of all employee annually so that to understand the actual condition as to recommend promotions or salary increment. The Group provides accommodation and canteen near to the manufacturing bases to its workers in the factor.

#### *Labour Discipline Management Standard*

This standard is made for all workers of the Group in accordance with the PRC labour contract laws and regulations. All workers are required to read the policy before work so they would understand the procedures of the job, segregation of duties, rewards and punishments and so on.



# Environmental, Social and Governance Report

## *Workplace*

The Group are committed to pursuing equal opportunities for all colleagues, irrespective of personal traits such as age and gender. The Group has in place internal policies in relation to working hours, rest period, diversity and anti-discrimination and ensures that such policies are adopted and in force at all times. All employees of the Group are entitled to annual leaves and statutory holidays. The Group had no reported incidents of non-compliance with regulations concerning employment, dismissal, anti-discrimination, diversity and equal opportunity during the year.

The turnover rate of chicken division is contributed by the relatively shorter employment terms of the frontline workers of the chicken division. Majority of the workers of this division are mobile workforce originated from distanced provinces, and they tend to resign to allow more time for "homecoming" during the Chinese New Year holiday period. The Group understands their need and therefore made a particular policy to work with its employees which is a temporary resignation with those workers until they are ready to work again. The policy can uphold the interests of the Group and workers at the same time and also reduce the turnover rate of the division.

The breakdown by gender, age group and the length of service are as follows:

	<b>Total</b>	<b>Gender</b>		<b>Age Group</b>		
		<b>Male</b>	<b>Female</b>	<b>18-35</b>	<b>36-55</b>	<b>56 or above</b>
Number of staff	3,017	1,362	1,655	621	2,140	256

## ***Health and Safety***

The Group has put the health and safety of the employees as the priority of productions and every worker who operates factory plants are required to train for how to use the equipment safely. The Group's policy on occupational safety and hygiene management is to "provide a safe and healthy working environment for the employees and avoid occupational hazards".

### *Factory Sterilizing Policy*

The Group concerns about the employees' health and work safety. The Factory Sterilizing Policy is to enhance the workers' hygiene, guarantee the quality of products, so every worker is obligated to follow the procedures whenever they need to enter.



# Environmental, Social and Governance Report

The Group has provided a full set of protective clothing for the workers in different division. Also, every worker would pass through a sterilization process when going in/out the area.

In the beginning of each year, the Group would provide lecture/training program for all workers to ensure everyone understands how the sterilization process is done.

## *Laws and regulations*

With respect to occupational safety and hygiene management, the Group has complied with the corresponding local laws and regulations in the region where the relevant factory is located and brand customers' requirements. The Group has implemented management and hazards prevention measures.

The Group's production bases are subject to the Production Safety Law of the PRC and the Regulations on Safety Supervision of Special Equipment. During the year ended 31 December 2019, the Group has complied with the relevant regulations for health and safety.

## *Work-related injuries and procedure*

The Group requires all factories to regularly review the internal safety and hygiene management policy, and installed electronic surveillance system to monitor abnormal incidents and to help focus on major risks. On the other hand, the Group strictly requests all staffs to equip the wear protection properly which are needed for any purpose or activity during work. During the year ended 31 December 2019, the Group was not aware of any non-compliance with laws and regulations relating to health and safety issues.

## **Occupational health and safety statistics**

**2019**

Number of work-related fatalities	Nil
Number of work injuries	2
Number of lost days due to work injury	108

## ***Development and training***

The objectives of training and development are to continuously upgrade the quality of manpower and job skills, thereby creating greater corporate value and achieving operational goals and future development. In order to achieve the goals of the Group's training and development, it is essential to consider not only the Group's business vision and objectives, but also the assessment of employees' performance and capability.

According to the Group's training and development policy, the Group trains the employees according to their job level and occupation. For the new employees, the Group provides training for the employees to understand the Group's culture, policies and standards as soon as possible and then help the employees to set up a personal planning from each of the employees.

For managers, ensuring stable and rapid development of the Group, learning from the production management of excellent enterprises and improving production management system, the Group organizes meetings with different enterprises and provided management-related trainings for managers.



# Environmental, Social and Governance Report

For the specialized quality inspectors, the Group provides knowledge training for them to gain a better understand of ISO9001/ISO14001 environmental management system and ISO22000 Quality management system. In order to improve quality requirements, the Group also provides training about quality control of products.

The Group also provides many training, meetings and activities for the employees based on their job level and occupation. Through diversified and different kinds of training, the Group believes the training can help to enhance employees' cohesiveness and work efficiency of employees.

Meanwhile, the employees can identify their own personal objectives for development, allowing them to grow along with the Group and become long-term and stable partners of the Group. The Group also encourages the senior management and directors to attend external professional training and provide them leave allowance for training.

## ***Labour Standards***

The Group strictly complied with Labour Contract Law of the People's Republic of China 《中華人民共和國勞動合同法》. According to the law of the PRC on the Protection of Minors and as stipulated by the Labour Law of the PRC in terms of employment management, there is neither child nor forced labour in our Group's operation. The Group does not hire child labour below the relevant legal threshold of the respective markets. At the time of interview, the human resources department will request the job applicants to produce valid identity document for the verification of real age of the applicants. The working hours of the employees strictly comply with the local laws and the employees' resting time is always allowed. Overtime pays are in line with local laws and regulations. During the year ended 31 December 2019, no employees of the Group aged under 18 and there is no labour dispute regarding forced labour and child labour between the Group and its staffs.

## ***Supply chain management***

The Group committed to establishing a comprehensive vertical supply chain management system through supplier screening and management. The objectives are to strengthen the collaborative relationship with the strategic suppliers and to create competitive advantage in the value chain, the Group strives to ensure that their suppliers uphold similar stance in sustainability. The strategic screening mechanism of suppliers can ensure that their performances can meet the Group's requirement. This is important for the development of long-term strategic partnership and the formation of a supply chain management system.

The Group usually guarantees that there are two or more qualified suppliers of raw materials to control the stability of supply and ensure the production process is smooth and timely. After receiving raw materials from the suppliers, the Group has specialized quality inspectors to test the quality of the raw materials and the Group prepares test reports for documentation.

In our frontline operations, the Group focuses on environmentally friendly materials such as Forest Stewardship Council ("FSC") paper and recycled plastics. In the PRC, the Group has established proper procedures other than price evaluation. This will also take the provision of follow up services into consideration.



# Environmental, Social and Governance Report

## ***Product responsibility***

The Group has put the product and services quality as its first priority as the performance of the products would directly affect the reputation and success of the business and the potential damage for consumers' claim. The Group continually improves its product quality and responds immediately to customers' needs in terms of quality and price so to strengthen the relationship with customers. The Group has employed foreign and local experts for the consultation about the production and processing of the rabbit products and has also engaged professional technicians to research and develop the most suitable method for retaining rabbit products' quality.

By introducing ISO 9001, the Group has been focusing on meeting customer expectations and delivering customer satisfaction. The products of the Group are subject to the Product Quality Law of the PRC and Law on Protection of the Rights and Interests of Consumers of the PRC which make the Group has the responsibility to refund or compensate for damage caused by the products due to defects. For the year ended 31 December 2019, the Group did not receive any significant complaints on the quality on our products and have records on products that are returned due to safety or health problems.

## ***Customer data protection***

The Group collects information from suppliers and customers for different purposes and takes appropriate procedures to ensure that the information collected are solely for lawful and relevant purposes. The Group sets out data privacy requirements in the company policies, under which customer and suppliers' data would be used exclusively for matters relating to the Group's operation only. We strive to ensuring all collected data kept is free of unauthorized or accidental access, processing, erasure or other use.

During the year ended 31 December 2019, the Group was not aware of any incidents of non-compliance with laws and regulations that have a significant impact on the Group concerning health and safety, labelling, advertising and privacy matters relating to products.

## ***Anti-Corruption***

The Group believes that integrity is one of the vital principles in the operation of its business. A system with good anti-corruption mechanism is the cornerstone for the sustainable and healthy development of the Group. All employees and directors are prohibited from accepting any items with money value over a certain amount from co-workers, customers, suppliers, etc. in order to prevent any conflict of interest. Besides, the Group also requires the suppliers to follow the Group's principles on honest transactions in order to maintain a high standard in business integrity. The Group did not notice any non-compliance towards corruption, fraud, money laundering, bribery in 2019.

## ***Community Investment***

With factories established in Qingdao, the Group is contributing positively towards the community as the factories provide employment locally within the communities. In addition, the Group encourages employees to be involved in social responsibility activities. The Group contributed to local communities through both direct donations and organizing activities.

The Group internally established a "Love Funds" charity which an aim to support our employees with financial difficulties or poor families. Providing our employees with free accommodation and allowance of staffs' canteen can definitely help them to build a better living environment.



# Directors' Report

The Directors of the Company herein present their report and audited financial statements of the Group for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 39 to the financial statements.

There was no significant change in the nature of the principal activities of the Group during the year.

The business review of the Group for the year ended 31 December 2019, a discussion on the Group's future prospects and an analysis of the Group's performance using key performance indicators are set out in the "Financial Highlights", "Chairman's Statement" and "Management Discussion and Analysis" on pages 1 to 2, page 3 and pages 8 to 13 respectively of this Annual Report.

## PRINCIPAL RISKS AND UNCERTAINTIES

Many economic experts closely monitor whether the global and China economy growth will slow down in coming years. The Group's sales of traditional business such as the food products may be under uncertainties if the consumer market downturn exists. It is the reason that the Group started broadening the products range and sales channels of the Group and upgrading the current facilities a few years ago, aiming to diversify the risk of over reliance on any single business segment.

In the past few years, labour cost in the PRC continuously increased and the production-oriented entities in the PRC were facing the increasing pressure of higher production cost. The Group will apply more resources in establishing production automation system in order to reduce manpower per production unit.

Please refer to note 42 to the consolidated financial statements for other risks and uncertainties.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group continues to update the requirements of the relevant environmental laws and regulations applicable to it to ensure compliance. The Group does not produce material waste nor emit material quantities of pollutants during its production process. During the year under review, the Group has complied with the relevant environmental laws and regulations applicable to it in all material respects, including permit requirements.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group continues to update the requirement of the relevant laws and regulations in various countries, particularly in the PRC, applicable to it to ensure compliance. All of the Group's assets are located in the PRC and the Group's revenue is mainly derived from operations in the PRC. The Company's shares are primary listed on the Main Board of the Stock Exchange of Hong Kong Limited and the listing status in the Main Board of the Singapore Exchange Securities Trading Limited was changed from primary listing to secondary listing with effect from 23 January 2017. During the year under review, the Group complied with the relevant laws and regulations in various countries applicable to it in all material respects.



# Directors' Report

## ACCOUNT OF THE GROUP'S KEY RELATIONSHIPS

### (i) Employees

The Group offers a comprehensive range of staff facilities and fringe benefits to attract, retain and motivate employees. Key personnel have been part of the management team since the inception of business. During the year under review, the Group considered the relationship with employees was well and the turnover rate is acceptable.

### (ii) Suppliers

The Group's suppliers mainly include raw material suppliers. All key suppliers have a close and long term relationship with the Group. During the year under review, the Group considered the relationship with its suppliers was well and stable.

### (iii) Customers

The Group sells products directly to customers. The Group maintains a very good relationship with all the customers.

## RESULTS AND APPROPRIATION

The financial performance of the Group for the year ended 31 December 2019 and the financial position of the Group as at that date are set out in the financial statements on pages 75 to 151.

The Board of Directors (the "Board") did not recommend any dividend for the year ended 31 December 2019.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements is set out below. The summary does not form part of the audited financial statements.

RESULTS	Year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	<b>1,410,535</b>	1,403,673	1,335,667	1,262,785	1,226,448
Profit/(Loss) before tax	<b>9,465</b>	7,053	(9,464)	9,796	(20,743)
Income tax expense	<b>(4,123)</b>	(1,340)	(3,290)	(2,247)	(5,262)
Profit/(Loss) for the year	<b>5,342</b>	5,713	(12,754)	7,549	(26,005)
Other comprehensive income	-	-	-	-	-
Exchange differences in translating foreign operation	<b>217</b>	(421)	410	-	-
Total comprehensive income for the year	<b>5,559</b>	5,292	(12,344)	7,549	(26,005)
Profit/(Loss) for the year attributable to:					
Owners of the Company	<b>4,366</b>	5,642	(15,783)	6,295	(28,060)
Non-controlling interests	<b>976</b>	71	3,029	1,254	2,055
	<b>5,342</b>	5,713	(12,754)	7,549	(26,005)





# Directors' Report

ASSETS AND LIABILITIES	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Non-current assets	951,175	867,576	958,514	1,003,985	1,023,473
Current assets	545,346	896,336	728,154	725,145	824,633
<b>TOTAL ASSETS</b>	<b>1,496,521</b>	1,763,912	1,686,668	1,729,130	1,848,106
Current liabilities	759,295	1,074,584	961,008	992,806	1,107,033
Non-current liabilities	66,554	24,215	59,471	57,791	70,089
<b>TOTAL LIABILITIES</b>	<b>825,849</b>	1,098,799	1,020,479	1,050,597	1,177,122
<b>NET ASSETS</b>	<b>670,672</b>	665,113	666,189	678,533	670,984

## PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group are set out in note 14 to the financial statements.

## BIOLOGICAL ASSETS

The production quantities of agricultural produce of rabbits, chicken, hatchable eggs and vegetables for the year ended 31 December 2019 are as follows:

	Group 2019
Rabbits	3,588,410
Chicken	20,604,774
Hatchable eggs	26,941,277
Vegetables (in tonnes)	76

Details of the movement in biological assets of the Group are set out in note 18 to the financial statements.

## INTEREST-BEARING BANK BORROWINGS

Particulars of interest-bearing bank borrowings of the Group as at 31 December 2019 are set out in note 30 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Memorandum of Association, Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company (the "Shareholders").



# Directors' Report

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 78 of the Annual Report and note 37 to the financial statements respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the provision of laws of Bermuda, amounted to approximately RMB263,216,000 (2018: approximately RMB263,216,000). The balance of approximately RMB257,073,000 (2018: approximately RMB257,073,000) in the share premium account may be distributed in the form of fully paid bonus shares.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares during the year (in 2018: Nil).

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30% of the Group's revenue was attributable to the Group's five largest customers and revenue attributable to the largest customer included therein amounted to 13%.

During the year, 34.9% of the Group's purchases were attributable to the Group's five largest suppliers and purchase attributable to the largest supplier included therein amounted to 22%.

As at 31 December 2019, none of the Directors, their close associates or any Shareholder (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in any of the five largest customers and/or suppliers of the Group.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

### *Executive Directors:*

Mr. Fang Yu (*Chairman & Chief Executive Officer*)  
Mr. An Fengjun  
Mr. Gao Yanxu  
Mr. Luo Zhenwu  
Mr. Li Wei  
Mr. Wang Yuan\*

### *Independent Non-executive Directors:*

Mr. Chan Ka Yin<sup>#</sup>  
Mr. Song Xuejun  
Mr. Lu Zhiwen  
Mr. Lau Choon Hoong\*

\* Resigned as director on 7 November 2019

<sup>#</sup> Appointed as director on 7 November 2019

Mr. Wang Yuan resigned as an executive Director with effect from 7 November 2019 in order to pursue other personal and business commitments. Mr. Lau Choon Hoong resigned as an independent non-executive Director, the chairman of the audit committee, a member of each of the remuneration committee and the nomination committee with effect from 7 November 2019 due to expiry of contract term.



# Directors' Report

In accordance with the Company's Bye-Laws, the following Directors shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election at the Annual General Meeting:

Under Bye-law 86(1):

- Mr. Fang Yu
- Mr. Luo Zhenwu
- Mr. Song Xuejun

Under Bye-law 85(6):

- Mr. Chan Ka Yin

The Company has received annual confirmations of independence from each of its Independent Non-executive Directors and considers Mr. Chan Ka Yin, Mr. Song Xuejun and Mr. Lu Zhiwen to be independent under Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

Biographical details of the Directors and the senior management of the Group are set out on pages 4 to 6 of the Annual Report.

## DIRECTORS' SERVICE CONTRACTS

### Executive Directors

Each of Mr. Fang Yu, Mr. Luo Zhenwu, Mr. Li Wei, Mr. Gao Yanxu and Mr. An Fengjun has entered into service contracts (the "ED Service Contracts") with the Company, and the respective duration of appointment are as follows:

Mr. Fang Yu – 19 June 2018 to 18 June 2021  
Mr. Luo Zhenwu – 19 June 2018 to 18 June 2021  
Mr. Li Wei – 13 October 2018 to 12 October 2021  
Mr. Gao Yanxu – 26 August 2019 to 25 August 2020  
Mr. An Fengjun – 11 March 2020 to 10 March 2021

The appointment of each of Mr. Fang Yu, Mr. Luo Zhenwu, Mr. Li Wei, Mr. Gao Yanxu and Mr. An Fengjun may be terminated by either party giving not less than one month's notice in writing to the other or in accordance with the terms of the ED Service Contracts.

Under the ED Service Contracts, each of Mr. Fang Yu, Mr. Luo Zhenwu, Mr. Li Wei, Mr. Gao Yanxu and Mr. An Fengjun is entitled to a fixed fee of HK\$5,000,000 per year, HK\$1,700,000 per year, HK\$4,500,000 per year, RMB72,000 per year and RMB400,000 per year respectively, and such fees will be reviewed annually by the Remuneration Committee.

Each of Mr. Gao Yanxu and Mr. An Fengjun is also entitled to a management bonus by reference to the consolidated profits after taxation and non-controlling interests (excluding extraordinary and exceptional items) ("Net Profits") as the Board may approve provided that the aggregate amount of management bonuses payable to all Executive Directors in respect of any financial year of the Group shall not exceed 10 percent of the Net Profits for the relevant financial year.

### Independent Non-executive Directors

Each of Mr. Chan Ka Yin, Mr. Song Xuejun and Mr. Lu Zhiwen has signed re-appointment letters (the "INED Re-Appointment Letters") with the Company, for a one-year term from their date of appointment. Their respective INED Appointment Letters can be terminated by either party giving not less than one month's notice in writing to the other or in accordance with the terms of the appointment letter.

Under the INED Appointment Letters, Mr. Chan Ka Yin, Mr. Song Xuejun and Mr. Lu Zhiwen are entitled to a remuneration of HK\$10,000 per month, HK\$20,000 per month and HK\$20,000 per month (subject to the approval of the Shareholders), respectively.



# Directors' Report

None of the retiring Directors proposed for re-election at the forthcoming annual general meeting of the Company has a service contract or an appointment letter with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in the sub-sections headed "Connected Transactions and Continuing Connected Transactions" and note 45 to the financial statements, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director and/or entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of financial year or at any time during the financial year.

## **CONTRACTS OF SIGNIFICANCE**

Save as those disclosed in the sub-sections headed "Directors' Service Contracts" above and note 45 to the financial statements, none of the Directors, the controlling shareholders of the Company and/or their respective associates has a significant interest, either directly or indirectly, in any contract of significance to the business of the Group or contracts of significant for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries to which the Company, any of its subsidiaries was a party during the year under review.

## **ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES**

During and at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY UNDER THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571) OF THE LAWS OF HONG KONG (THE "SFO")**

As at 31 December 2019, none of the Directors and Chief Executive had any interests in the share capital of the Company or Associated Corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").



# Directors' Report

## DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

As at 31 December 2019, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS UNDER THE SFO

As at 31 December 2019, insofar as is known to the Directors and Chief Executive of the Company, the following persons (not being a Director or Chief Executive of the Company), had an interest and short position in the shares and underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as follows:

### In respect of the Company

Name of Substantial Shareholder (Note 1)	Capacity/nature of interests	Number of Shares held (Note 1)	Approximate percentage of issued share capital (%)
ZENITH HOPE LIMITED	Registered and beneficial owner	324,708,066	75.00%

Note:

1. Information was provided by substantial shareholder.

Save as disclosed above, the Directors were not aware of any other person (not being the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as at 31 December 2019, which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO and were recorded in the register required to be kept by the Company under Section 336 of the SFO.



# Directors' Report

## CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 15 to 50 of the Annual Report.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Group has entered into the following continuing connected transactions and connected transactions as defined under the Hong Kong Listing Rules. These continuing connected transactions and connected transactions between certain connected persons (as defined in the Hong Kong Listing Rules) and the Group also constituted certain related party transactions as disclosed in note 45 to the financial statements.

- The Group entered into 4 lease agreements dated between 1 January 2007 to 1 January 2019 either as tenant (collectively the "Lease Agreements") with a connected person (as defined under the Hong Kong Listing Rules), KD Trading Company, with annual rent ranging from RMB89,000 to RMB431,000. The terms of the Lease Agreements will expire between 15 December, 2020 and 1 January 2022 respectively. The total amount of rent paid by the Group for the year ended 31 December 2019 amounted to approximately RMB1,070,000 as disclosed in note 45 to the financial statements.
- The total amount of sales to KD Trading Company and its subsidiaries, of which Mr. Gao Sishi, as a director of a major subsidiary of the Company, has beneficial interests, for the year ended 31 December 2019 amounted to approximately RMB4,650,000.
- The guarantees given by KD Trading Company in connection with the bank loans granted to the Group for the year ended 31 December 2019 amounted to approximately RMB620,000,000.

The Independent Non-executive Directors of the Company have reviewed the transactions conducted during the year and confirmed that the transactions:

- (i) have been entered into in the ordinary and usual course of the business of the Group;
- (ii) have been entered into either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and
- (iii) have been entered into in accordance with the relevant agreements on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company confirms that the Group has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules, save as the aforesaid, there were no other transactions which need to be disclosed as connected transactions or continuing connected transactions in accordance with the requirements under the Hong Kong Listing Rules.



# Directors' Report

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. Gao Yanxu is directly and indirectly interested in KD Trading Company, which is principally engaged in diversified businesses, including trading of construction materials, fresh vegetables, animal feeds and property management.

KD Trading Company is a company established in the PRC and is owned by Mr. Gao Yanxu as to 5.3%. Apart from its principal business of construction materials trading, KD Trading Company is also engaged in the purchases of processed food products. The Directors understand that KD Trading Company will continue to purchase processed food products for self-consumption, including making of gift packages to be gifted to others at nil consideration but does not intend to sell any processed food products in the future. As such, the Directors are of the view that there is no competition with KD Trading Company.

Save as disclosed above, during the year and up to the date of this report, none of the Directors are considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors have been appointed or were appointed as Directors to represent the interests of the Company and/or the Group. The Directors are not aware that any KD Trading Company member had any actual operation in food processing business during the year and up to the date of this report. The Directors also are not aware that any KD Trading Company member plans to engage in food processing business which may compete with the business of the Group in the near future. As the Group is principally engaged in the production and sales of chicken meat, rabbit meat and processed foods which are distinct from the businesses of KD Trading Company, the Directors are of the view that the businesses of KD Trading Company do not compete or are unlikely to compete directly or indirectly with the Group's business.

## MANAGEMENT CONTRACT

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

## PERMITTED INDEMNITY

The Company's Bye-Laws provides that each Director of the Company shall be entitled to be indemnified out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she may incur or sustain in or about the execution of his/her duty. In addition, the Company has maintained directors' liability insurance throughout the financial year, which provides appropriate covers for the Director.

## SUFFICIENCY OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public (as defined in the Hong Kong Listing Rules) as at the latest practicable date of this report, being 22 April 2020.

## AUDIT COMMITTEE, NOMINATION COMMITTEE AND REMUNERATION COMMITTEE

Details of the Company's Audit Committee, Nomination Committee and Remuneration Committee are set out in the Corporate Governance Report in pages 15 to 50 of the Annual Report.



# Directors' Report

## AUDITORS

BDO Limited, Certified Public Accountants, ("BDO") was re-appointed on 17 June 2019 as auditor. Save as below, there is no change in the auditors of the Company in any of the preceding three years. Given that the Company is no longer required to comply with Rule 712(2) and 715(1) of the Listing Manual of SGX-ST, the Company did not re-appoint BDO LLP, Singapore as one of its joint auditors and BDO LLP, Singapore ceased to be one of its joint auditors with effect from 29 March 2017.

BDO retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company to the appointment of BDO as auditors of the Company to satisfy the Hong Kong Listing Rules for the ensuing year until the next Annual General Meeting in 2021.

## ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company will be held on 22 June 2020 (the "AGM").

For the purpose of determining the eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 17 June 2020 to Monday, 22 June 2020, both days inclusive, during which no transfer of shares will be registered.

In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 16 June 2020.

On behalf of the Board

### **Fang Yu**

*Chairman and Chief Executive Officer*

### **Gao Yanxu**

*Executive Director*

31 March 2020





## Statement by the Directors

We, Fang Yu and Gao Yanxu, being two of the Directors of China Kangda Food Company Limited, do hereby state that, in the opinion of the Directors,

- (i) the accompanying Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows of the Group, together with the notes thereto, are drawn up in accordance with International Financial Reporting Standards so as to give a true and fair view of the financial position of the Group as at 31 December 2019 and of the financial performance of the business, changes in equity and cash flows of the Group for the year then ended; and
- (ii) as at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The financial statements for the year ended 31 December 2019 were authorised for issue by the Board of Directors on the date stated hereunder.

**Fang Yu**

*Chairman and Chief Executive Officer*

**Gao Yanxu**

*Executive Director*

31 March 2020



# Independent Auditor's Report



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## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA KANGDA FOOD COMPANY LIMITED**

*(Incorporated in Bermuda with limited liability)*

### **OPINION**

We have audited the consolidated financial statements of China Kangda Food Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 75 to 151, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **BASIS FOR OPINION**

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

### **MATERIAL UNCERTAINTY RELATED TO GOING CONCERN**

We draw attention to note 3(b) in the consolidated financial statements, which indicates the Group's current liabilities exceeded its current assets by approximately RMB213,949,000 as at 31 December 2019. As stated in note 3(b), this condition, along with other matters as set forth in note 3(b), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **KEY AUDIT MATTERS**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.



# Independent Auditor's Report

## **Impairment assessment of goodwill and other non-financial assets**

(Refer to notes 14, 17 and 19 to the financial statements and the accounting policies as set out in notes 4(d), 4(e), 4(l) and 4(n) to the financial statements)

As at 31 December 2019, the Group had goodwill of RMB56.3 million, property, plant and equipment of RMB125.5 million and right-of-use assets of RMB22.0 million relating to a cash-generating unit ("CGU") within the Group. The CGU is tested for impairment annually and no impairment losses had been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2019.

Management has appointed an independent valuation firm to carry out the assessments. Management and the independent valuation firm are required to make judgements when estimating recoverable amounts of the CGU, including (i) producing future cash flow forecasts with appropriate assumptions; and (ii) selecting and applying appropriate key inputs such as discount rates.

### ***Our responses***

Our procedures in relation to management's impairment assessments included:

- assessing the valuation methodologies used;
- evaluating the independent valuation firm's competence, capabilities and objectivity;
- reviewing and challenging the reasonableness of key assumptions and critical judgement areas which underpin the calculations; and
- checking the accuracy and the relevance of the input data used.

## **Valuation of biological assets**

(Refer to note 18 to the financial statements and the accounting policies as set out in note 4(v) to the financial statements)

As at 31 December 2019, the Group had biological assets with a fair value of RMB74.3 million. Management appointed an independent valuation firm to estimate fair values of the biological assets using a market approach with reference to the market-determined prices with similar size, species, age and weight.

### ***Our responses***

Our procedures in relation to management's fair value estimations of biological assets included:

- assessing the valuation methodologies used by management and the independent valuation firm;
- evaluating the independent valuation firm's competence, capabilities and objectivity;
- reviewing and challenging the reasonableness of key assumptions and critical judgement areas which underpin the fair value estimations; and
- checking the accuracy and the relevance of the input data used.



# Independent Auditor's Report

## **OTHER INFORMATION IN THE ANNUAL REPORT**

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report but does not include the consolidated financial statements and our auditor's report thereon.

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

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

## **DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



## Independent Auditor's Report

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

### **BDO Limited**

*Certified Public Accountants*

### **Wong Kwok Wai**

Practising Certificate Number P06047

Hong Kong, 31 March 2020



# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
<b>Revenue</b>	7	<b>1,410,535</b>	1,403,673
Cost of sales		<b>(1,303,976)</b>	(1,282,316)
<b>Gross profit</b>		<b>106,559</b>	121,357
Other income and other gains	7	<b>55,066</b>	36,826
Selling and distribution costs		<b>(40,699)</b>	(34,608)
Administrative expenses		<b>(67,126)</b>	(58,106)
Other operating expenses		<b>(18,962)</b>	(32,713)
<b>Profit from operations</b>	8	<b>34,838</b>	32,756
Finance costs	9	<b>(24,889)</b>	(25,189)
Share of loss of an associate		<b>(484)</b>	(514)
<b>Profit before taxation</b>		<b>9,465</b>	7,053
Income tax expense	10	<b>(4,123)</b>	(1,340)
<b>Profit for the year</b>		<b>5,342</b>	5,713
<b>Other comprehensive income</b>			
<b>Item that may be reclassified subsequently to profit or loss:</b>			
Exchange differences in translating foreign operations		<b>217</b>	(421)
<b>Other comprehensive income for the year</b>		<b>217</b>	(421)
<b>Total comprehensive income for the year</b>		<b>5,559</b>	5,292
<b>Profit for the year attributable to:</b>			
Owners of the Company		<b>4,366</b>	5,642
Non-controlling interests		<b>976</b>	71
		<b>5,342</b>	5,713
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Company		<b>4,583</b>	5,221
Non-controlling interests		<b>976</b>	71
		<b>5,559</b>	5,292
<b>Earnings per share for profit attributable to the owners of the Company during the year</b>	12		
<b>Basic (RMB cents)</b>		<b>1.01</b>	1.30
<b>Diluted (RMB cents)</b>		<b>1.01</b>	1.30



# Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	687,126	677,602
Prepaid premium for land leases	15	–	101,324
Interests in associates	16	1,742	2,226
Goodwill	17	56,355	56,778
Biological assets	18	39,497	23,339
Right-of-use assets	19	150,949	–
Deferred tax assets	21	866	1,188
Deposits for property, plant and equipment		14,640	5,119
Total non-current assets		951,175	867,576
<b>Current assets</b>			
Biological assets	18	34,756	28,679
Inventories	22	134,856	124,857
Trade and bills receivables	23	114,597	122,707
Prepayments, other receivables and deposits	24	45,790	32,126
Pledged deposits	26	55,880	311,100
Cash and cash equivalents	26	159,467	276,867
Total current assets		545,346	896,336
<b>Current liabilities</b>			
Trade and bills payables	27	205,545	507,156
Accrued liabilities and other payables	28	132,407	112,702
Contract liabilities	29	13,564	7,988
Interest-bearing bank borrowings	30	334,000	384,000
Amount due to a related party	31	10,701	19,001
Loan from immediate holding company	32	26,848	–
Deferred government grants	33	3,249	3,339
Other borrowings	34	22,145	38,887
Lease liabilities	35	8,347	–
Tax payables		2,489	1,511
Total current liabilities		759,295	1,074,584
<b>Net current liabilities</b>		<b>(213,949)</b>	<b>(178,248)</b>
<b>Total assets less current liabilities</b>		<b>737,226</b>	<b>689,328</b>
<b>Non-current liabilities</b>			
Deferred government grants	33	15,210	18,619
Other borrowings	34	–	264
Lease liabilities	35	46,891	–
Deferred tax liabilities	21	4,453	5,332
Total non-current liabilities		66,554	24,215
<b>Net assets</b>		<b>670,672</b>	<b>665,113</b>



# Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
<b>EQUITY</b>			
<b>Equity attributable to the Company's owners</b>			
Share capital	36	112,176	112,176
Reserves	37	531,478	526,895
		<b>643,654</b>	639,071
<b>Non-controlling interests</b>			
		<b>27,018</b>	26,042
<b>Total equity</b>		<b>670,672</b>	665,113

Fang Yu  
Director

Gao Yanxu  
Director





# Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Equity attributable to the Company's owners							Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium* RMB'000	Merger reserve* (note 37) RMB'000	Capital redemption reserve* (note 37) RMB'000	Other reserves* (note 37) RMB'000	Foreign currency translation reserve* RMB'000	Retained profits* RMB'000			
At 1 January 2018	112,176	257,073	(41,374)	2,374	46,798	410	256,393	633,850	31,129	664,979
Release of non-controlling interests upon disposal of subsidiaries	-	-	-	-	-	-	-	-	(5,158)	(5,158)
Profit for the year	-	-	-	-	-	-	5,642	5,642	71	5,713
Other comprehensive income	-	-	-	-	-	(421)	-	(421)	-	(421)
Total comprehensive income for the year	-	-	-	-	-	(421)	5,642	5,221	71	5,292
At 31 December 2018 and 1 January 2019	112,176	257,073	(41,374)	2,374	46,798	(11)	262,035	639,071	26,042	665,113
Profit for the year	-	-	-	-	-	-	4,366	4,366	976	5,342
Other comprehensive income	-	-	-	-	-	217	-	217	-	217
Total comprehensive income for the year	-	-	-	-	-	217	4,366	4,583	976	5,559
<b>At 31 December 2019</b>	<b>112,176</b>	<b>257,073</b>	<b>(41,374)</b>	<b>2,374</b>	<b>46,798</b>	<b>206</b>	<b>266,401</b>	<b>643,654</b>	<b>27,018</b>	<b>670,672</b>

\* The consolidated reserves of the Group as at 31 December 2019 of approximately RMB531,478,000 (2018: RMB526,895,000) as presented in the consolidated statement of financial position comprised these reserve accounts.



# Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
<b>Cash flows from operating activities</b>			
Profit before taxation		9,465	7,053
Adjustments for:			
Interest income	7	(4,651)	(2,828)
Interest expenses	9	24,889	25,189
Gains arising from changes in fair value less estimated costs to sell of biological assets, net	7	(34,911)	(10,528)
Depreciation of property, plant and equipment	8	60,270	65,845
Depreciation of right of use asset	8	16,392	–
Loss on disposal of property, plant and equipment	8	16,078	27,948
Amortisation of prepaid premium for land leases	8	–	4,199
Amortisation of deferred income on government grant	7	(3,339)	(3,421)
Write-off of inventories	8	842	–
Provision for trade and bills receivables	8	1,505	370
(Reversal of provision)/Provision for other receivables	8	(449)	2,440
Gain on disposal of a subsidiary	41	(3,016)	(5,167)
Unrealised exchange loss		1,248	–
Share of loss of an associate		484	514
		<b>84,807</b>	111,614
Operating profit before working capital changes			
(Increase)/Decrease in inventories		(12,734)	30,916
Decrease/(Increase) in trade and bills receivables		5,453	(28,636)
Increase in prepayments, other receivables and deposits		(14,863)	(11,120)
Decrease in biological assets		12,650	18,444
(Decrease)/Increase in trade and bills payables		(301,403)	271,801
Increase in accrued liabilities and other payables		16,999	4,267
Increase in contract liabilities		5,576	5,234
Decrease in amount due to a related party		(8,300)	–
		<b>(211,815)</b>	402,520
Cash (used in)/generated from operations			
Interest paid		(22,428)	(25,120)
Income taxes paid		(3,661)	(2,902)
		<b>(237,904)</b>	374,498
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(74,793)	(43,736)
Deposits paid to acquire property, plant and equipment		(14,640)	(5,150)
Increase in prepaid premium for land leases		–	(30)
Proceeds from disposal of property, plant and equipment		–	830
Net proceeds from disposal of a subsidiary	41	(46)	38,246
Receipt of deferred government grants	33	–	1,105
Interest received		4,651	2,828
Decrease/(Increase) in pledged deposits		255,220	(270,640)
		<b>170,392</b>	(276,547)
<b>Net cash generated from/(used in) investing activities</b>			



# Consolidated Statement of Cash Flows

For the year ended 31 December 2019

Notes	2019 RMB'000	2018 RMB'000
<b>Cash flows from financing activities</b>		
Loan from immediate holding company	26,848	–
Repayment to related parties	–	(19,268)
New bank borrowings	334,000	484,000
(Decrease)/Increase in other borrowings	(18,254)	26,787
Repayment of bank borrowings	(384,000)	(645,319)
Repayment of principal amount of lease liabilities	(8,829)	–
	<hr/>	<hr/>
<i>Net cash used in financing activities</i>	(50,235)	(153,800)
	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>	(117,747)	(55,849)
	<hr/>	<hr/>
<b>Cash and cash equivalents at 1 January</b>	276,867	332,386
<b>Effect of foreign exchange rate change, net</b>	347	330
	<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	159,467	276,867
	<hr/>	<hr/>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	159,467	276,867
	<hr/>	<hr/>



# Notes to the Financial Statements

31 December 2019

## 1. CORPORATE INFORMATION

China Kangda Food Company Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 28 April 2006. The registered office of the Company is located at Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business of the Company is located at No. 8399, Binhai Boulevard, Huangdao District, Qingdao, the People’s Republic of China. The Company’s shares are primary listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the listing status in the Main Board of the Singapore Exchange Securities Trading Limited was changed from primary listing to secondary listing with effect from 23 January 2017.

The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries (together with the Company referred as the “Group”) are set out in note 39 to the financial statements.

In the opinion of the directors, the immediate holding company of the Company is Zenith Hope Limited, incorporated in British Virgin Islands and the ultimate holding company of the Company is Eternal Myriad Limited, incorporated in British Virgin Islands.

The Group’s operations are principally conducted in the People’s Republic of China (the “PRC”), excluding Hong Kong and Macau.

## 2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

### (a) Adoption of new/revised IFRSs – first effective on 1 January 2019

In the current year, the Group has applied for the first time the following new and revised standards issued by the International Accounting Standards Board (“IASB”), which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2019:

IFRS 16	Leases
IFRIC – Interpretation 23	Uncertainty over Income Tax Treatments
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 23, Borrowing Costs
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 12, Income Taxes
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, Business combinations
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 11, Joint arrangements
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS 9	Prepayment Features with Negative Compensation



# Notes to the Financial Statements

31 December 2019

## 2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

### (a) Adoption of new/revised IFRSs – first effective on 1 January 2019 (Continued)

#### *IFRS 16 – Leases*

##### (i) *Impact of the adoption of IFRS 16*

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 Leases (“IAS 17”), IFRIC-Int 4 Determining whether an Arrangement contains a Lease, SIC-Int 15 Operating Leases-Incentives and SIC-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee’s perspective, almost all leases are recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group’s accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied IFRS 16 using the cumulative effect approach and recognised the right-of-use asset at the amount equal to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following table summarised the impact of transition to IFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

#### **Consolidated statement of financial position as at 1 January 2019**

	RMB’000
Increase in right-of-use assets	143,161
Decrease in prepaid premium for land leases	(101,324)
Decrease in prepayments, other receivables and deposits	(5,358)
Increase in lease liabilities (non-current)	34,524
Increase in lease liabilities (current)	1,955



# Notes to the Financial Statements

31 December 2019

## 2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

### (a) Adoption of new/revised IFRSs – first effective on 1 January 2019 (Continued)

#### *IFRS 16 – Leases (Continued)*

##### (i) *Impact of the adoption of IFRS 16 (Continued)*

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitment to lease liabilities

	RMB'000
Operating lease commitment as of 31 December 2018	47,383
Less: future interest expenses	<u>(10,904)</u>
Total lease liabilities as of 1 January 2019	<u>36,479</u>

The weighted average lessee's incremental borrowing rates applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 5.86% per annum.

##### (ii) *New definition of a lease*

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee applies the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.



# Notes to the Financial Statements

31 December 2019

## 2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

### (a) Adoption of new/revised IFRSs – first effective on 1 January 2019 (Continued)

#### *IFRS 16 – Leases (Continued)*

##### *(iii) Accounting as a lessee*

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the consolidated statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise leases which are short-term. The Group has elected not to recognise right-of-use assets and lease liabilities for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised right-of-use assets and lease liabilities at the date of adoption of IFRS 16, i.e. 1 January 2019.

##### Right-of-use assets

The right-of-use assets should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liabilities (see below for the accounting policy to account for lease liabilities); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

##### Lease liabilities

The lease liabilities should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group’s incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liabilities by: (i) increasing the carrying amount to reflect interest on the lease liabilities; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.



# Notes to the Financial Statements

31 December 2019

## 2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

### (a) Adoption of new/revised IFRSs – first effective on 1 January 2019 (Continued)

#### *IFRS 16 – Leases (Continued)*

##### (iv) Transition

As mentioned above, the Group has applied IFRS 16 using the cumulative effect approach and recognised the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any prepayments relating to that lease recognised in the consolidated statement of financial position as at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases and prepaid premium for land leases under IAS 17 at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application. For all these right-of-use assets, the Group has applied IAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) exclude the initial direct costs from the measurement of the right-of-use assets at 1 January 2019; and (iii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group’s lease contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease; and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC-Int 4.





# Notes to the Financial Statements

31 December 2019

## 2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

### (a) Adoption of new/revised IFRSs – first effective on 1 January 2019 (Continued)

#### ***Annual Improvements to IFRSs 2015 – 2017 Cycle – Amendments to: IFRS 3, Business Combinations; IFRS 11 Joint Arrangements; IAS 12, Income Taxes; and IAS 23 Borrowing Costs***

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear.

- IFRS 3 Business Combinations: Clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.
- IFRS 11 Joint Arrangements: Clarifies that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.
- IAS 12 Income Taxes: Clarifies that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.
- IAS 23 Borrowing Costs: Clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

#### ***Amendments to IFRS 9 – Prepayment Features with Negative Compensation***

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

#### ***IFRIC – Int 23 – Uncertainty over Income Tax Treatments***

The Interpretation supports the requirements of IAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

#### ***Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures***

The amendment clarifies that IFRS 9 applies to long-term interests (“LTI”) in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that IFRS 9 is applied to these LTI before the impairment losses guidance within IAS 28.



# Notes to the Financial Statements

31 December 2019

## 2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

### (b) New/revised IFRSs that have been issued but are not yet effective

At the date of authorisation of these financial statements, the following new/revised IFRSs, potentially relevant to the Group’s financial statements, have been issued but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to IAS 1 and IAS 8	Definition of Material <sup>1</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>2</sup>
Amendments to IFRS 3	Definition of a Business <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

#### ***Amendments to IFRS 3 – Definition of a Business***

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

#### ***Amendments to IAS 1 and IAS 8 – Definition of Material***

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

#### ***Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors’ interests in the joint venture or associate.



# Notes to the Financial Statements

31 December 2019

## 2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

### (b) New/revised IFRSs that have been issued but are not yet effective (Continued)

#### *Amendments to IAS 1 – Classification of Liabilities as Current or Non-current*

The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. The amendments clarify the situations that are considered settlement of a liability.

The directors of the Company have performed an assessment on the new standards and amendments, and have concluded on a preliminary basis that the new standards and amendments would not have a significant impact on the Group’s financial statements in subsequent years.

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

The financial statements have been prepared in accordance with IFRSs which collective term includes all applicable individual International Financial Reporting Standards and Interpretations approved by the IASB, and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### (b) Basis of measurement and going concern assumption

The financial statements have been prepared under the historical cost basis except for biological assets which are stated at fair values less cost to sell and financial assets at fair value through other comprehensive income which are stated fair values as explained in the accounting policies set out below. It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

In preparing the financial statements, the Directors considered the operations of the Group can continue as a going concern notwithstanding that:

1. as at the year ended 31 December 2019, the Group’s current liabilities exceeded its current assets by approximately RMB213.9 million;
2. amongst the total bank borrowings and other borrowings, and loan from immediate holding company of approximately RMB383.0 million as at 31 December 2019 are due for repayment within one year from 31 December 2019, while the Group maintained its cash and cash equivalents of RMB159.5 million only; and
3. the Group’s net operating cash outflows amounted to RMB237.9 million (2018: net operating cash inflows of RMB374.5 million) for the year ended 31 December 2019.



# Notes to the Financial Statements

31 December 2019

## 3. BASIS OF PREPARATION (CONTINUED)

### (b) Basis of measurement and going concern assumption (Continued)

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the financial statements were prepared on a going concern basis as the Directors are of the view that the Group will have sufficient working capital to finance its operations and meet its financial obligations in the next twelve months from 31 December 2019, after taking into consideration of the following:

1. The Group continues to expand its production volume by improving the utilisation rate of its facilities and implement measures to tighten cost controls over various operating expenses in order to improve its profitability and cash inflow from its operations in the future;
2. The Group is actively negotiating with the banks to seek for renewal of the outstanding bank borrowings. Subsequent to the end of the reporting period, the Group also obtained written confirmation from several Group's major bankers, which confirmed to renew certain bank borrowings, in aggregate of up to RMB334.0 million, to the Group for another year upon the maturity of the bank borrowings. All these bank borrowings will mature in 2020;
3. Subsequent to year end date, the immediate holding company confirmed to renew the loan to the Group of RMB26.8 million for another year upon maturity in 2020 and provided an additional loan to the Group of RMB8.9 million for a period of one year from February 2020; and
4. The Group is actively exploring the availability of alternative source of financing.

The Directors of the Company believe that the aforementioned financing/business plans and operational measures will be successful, based on the continuous efforts and commitment given by the management.

Having regard to the cash flow projection of the Group, which are prepared assuming that these measures are successful, the Directors of the Company are of the opinion that, in the light of the measures taken to-date, together with the expected results of the other measures in progress, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the financial statements to write down the values of the assets to their net realisable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of such adjustments has not yet been reflected in the financial statements.

### (c) Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries in the PRC.



# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

### (b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

### (c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.



# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred, the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see note 4(l)) and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment at the end of that financial year or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less of disposal (if measurable) or its value in use (if determinable), whichever is higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

### (e) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold buildings	10 to 20 years
Plant and machinery	5 to 10 years
Furniture, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years



# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Property, plant and equipment (Continued)

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

### (f) Financial Instruments

#### (i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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

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

#### Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

**Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

**Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.



# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Financial Instruments (Continued)

#### (i) Financial assets (Continued)

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as fair value through profit or loss, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

#### (ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit losses ("ECLs") on trade receivables and financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.





# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Financial Instruments (Continued)

#### (iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

##### *Financial liabilities at amortised cost*

Financial liabilities at amortised cost including trade and other payables and borrowings issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

#### (iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

#### (v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### (vi) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.



# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using weighted average method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the estimated selling price in the ordinary course of business less all further costs of completion and the estimated costs necessary to make the sale.

### (h) Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

#### (i) Sale of goods

Customers obtain control of the food products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable 30 to 90 days.

#### (ii) Other income

Interest income – interest income is recognised as interest accrues (using the effective interest method) unless collectability is in doubt.

Government grant – such income is recognised when there is reasonable assurance that the grants will be received and the Group will comply with all attached conditions.



# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Revenue recognition (Continued)

#### *Contract assets and liabilities*

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

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

### (i) Income tax

Income tax for the year comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. The PRC corporate income tax is provided at rates applicable to enterprises in the PRC on the income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. All charges to current tax assets or liabilities are recognised as a component of income tax expense in the profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply to the period the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the reporting date.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.



# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Income tax (Continued)

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### (j) Foreign currencies

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign currency translation reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign currency translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign currency translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.



# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Employee benefits

#### *Retirement benefits scheme*

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries of the Company in the PRC are required to contribute a certain percentage of the basic salaries of their employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

#### *Short-term employee benefits*

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

### (l) Impairment of non-financial assets (except for goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investments in subsidiaries and associates;
- prepaid premium for land leases; and
- right-of-use assets

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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



# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Related parties

- (1) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of key management personnel of the Group or the Company's parent.
- (2) An entity is related to the Group if any of the following conditions apply:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (1).
  - (vii) A person identified in (1)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, of any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.



# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (n) Leases (accounting policy applied from 1 January 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise leases which are short-term. The Group has elected not to recognise right-of-use assets and lease liabilities for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

#### *Right-of-use assets*

The right-of-use assets should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liabilities; (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

#### *Lease liabilities*

The lease liabilities are recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liabilities; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.



# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Leases (accounting policy applied until 31 December 2018)

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

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

Lease where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid premium for land leases represent up-front payments to acquire long term interests in the usage of land in the PRC. They are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over the term of the leases.

### (p) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (q) Cash and cash equivalents

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

For the purpose of the consolidated statements of financial position, cash and bank balances comprise cash on hand and demand deposits repayable on demand with any banks or other financial institutions, which are not restricted to use. Cash and bank balances include deposits denominated in foreign currencies.





# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

### (s) Government grants

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### (t) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major products.

The Group has identified the reportable segments as production and sales of:

- Processed food products
- Chilled and frozen rabbit meat
- Chilled and frozen chicken meat
- Other products comprising chicken and rabbit meat by products and pet food products

Each of these operating segments is managed separately as each of the product lines requires different resources as well as marketing approaches.

For the purposes of assessing segment performance and allocating resources between segments, the Directors assess segment profit or loss by gross profit/loss less selling expenses and certain other operating expenses. The measurement policies used by the Group for reporting segment results under IFRS 8 are the same as those accounting policies used in its financial statements prepared under IFRSs. Segment assets/liabilities have not been disclosed as such amounts are not regularly provided to the Directors for resources allocation.

For the purpose of presenting geographical location of the Group's revenue from external customers and the Group's non-current assets, country of domicile is determined to be the PRC where the majority of Company's subsidiaries operate.



# Notes to the Financial Statements

31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Dividends

Final dividends proposed by the Directors are classified as an allocation of retained profits on a separate line within the equity, until they have been approved by the shareholders at general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

### (v) Biological assets

Biological assets are living animals, vegetables and hatchable eggs involved in the agricultural activities of the transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

Biological assets are measured at fair value less estimated costs to sell at initial recognition and at each reporting date. The fair value of biological assets is determined based on the market price of livestock and vegetables of similar age, breed and genetic merit.

The gain or loss arising on initial recognition of biological assets at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell of biological assets is recognised in the profit or loss for the period in which it arises.

The agricultural produce harvested from the biological assets are measured at their fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IAS 2. A gain or loss arising from agricultural produce at the point of harvest at fair value less costs to sell is included in profit or loss for the period in which it arises.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies and key sources of estimation uncertainty are discussed below.

### (i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassesses the estimations at the reporting date. The carrying amount of the Group's inventories is disclosed in note 22 to the financial statements.



# Notes to the Financial Statements

31 December 2019

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### (ii) Provision for ECLs on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in notes 23 and 42(c) to the financial statements.

### (iii) Income taxes and value-added tax ("VAT")

The Group is subject to various taxes in the PRC including corporate income tax and VAT. The Group also enjoys various preferential tax treatments in the PRC, e.g. the Group is exempted from corporate income tax for its businesses relating to agricultural, poultry and primary food processing and is exempted from VAT for its income derived from sale of self-produced agricultural products. Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised and deferred tax assets related to government grants. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Significant judgement is required in determining the amount of the provision for taxes and the timing of related taxes. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made. Also, the realisation of income tax assets and VAT assets is dependent on the Group's ability to generate sufficient sales and taxable income in future. Derivations of future profitability from estimates or in the income tax rate would result in adjustments to the value of tax assets and liabilities.

### (iv) Fair value measurement of biological assets

Biological assets included in the Group's financial statements require measurement at fair value. The fair value measurement of the Group's biological assets utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1:	Quoted prices in active markets for identical items (unadjusted);
Level 2:	Observable direct or indirect inputs other than Level 1 inputs; and
Level 3:	Unobservable inputs (i.e. not derived from market data).



# Notes to the Financial Statements

31 December 2019

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### (iv) Fair value measurement of biological assets (Continued)

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

Further information about the assumptions made in measuring fair values of the biological assets is included in note 18 to the financial statements.

### (v) Depreciation

The Group depreciates the property, plant and equipment, using the straight-line method, over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects management's estimate of the period that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual value reflects management's estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, as if the asset were already of the age and in the condition expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economics, useful lives and the residual values of these assets which could then consequentially impact future depreciation charges. The carrying amounts of the Group's property, plant and equipment at 31 December 2019 is disclosed in note 14 to the financial statements.

### (vi) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of the Group's goodwill as at 31 December 2019 is RMB56,355,000 (2018: RMB56,778,000).

### (vii) Impairment of non-financial assets (except for goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of fair value less costs to sell and value in use. The carrying amounts of the property, plant and equipment and right-of-use assets, as disclosed in notes 14 and 19 respectively, are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 4(l). Estimating the value in use requires the Group to estimate future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

### (viii) Going concern basis

These financial statements have been prepared on a going concern basis and the details are explained in note 3(b) to the financial statements.



# Notes to the Financial Statements

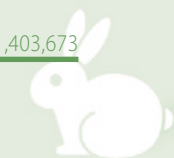
31 December 2019

## 6. SEGMENT INFORMATION

Information regarding the Group's reportable segments as provided to the Directors is set out below:

	Processed foods RMB'000	Chilled and frozen rabbit meat RMB'000	2019 Chilled and frozen chicken meat RMB'000	Other products RMB'000	Total RMB'000
Revenue from external customers	760,874	157,599	335,528	156,534	1,410,535
Reportable segment revenue	760,874	157,599	335,528	156,534	1,410,535
Reportable segment profit	24,331	6,023	10,078	9,114	49,546
Depreciation of property, plant and equipment	29,503	6,111	13,010	6,068	54,692
Depreciation of right-of-use assets	8,842	1,832	3,899	1,819	16,392
Loss on disposal of property, plant and equipment	7,964	1,655	3,523	1,667	14,809
Provision for trade and bills receivables	812	168	358	167	1,505
<b>Timing of revenue recognition</b>					
At a point in time	760,874	157,599	335,528	156,534	1,410,535

	Processed Foods RMB'000	Chilled and frozen rabbit meat RMB'000	2018 Chilled and frozen chicken meat RMB'000	Other products RMB'000	Total RMB'000
Revenue from external customers	807,165	109,559	318,053	168,896	1,403,673
Reportable segment revenue	807,165	109,559	318,053	168,896	1,403,673
Reportable segment profit/(loss)	65,249	(999)	(5,723)	13,316	71,843
Depreciation of property, plant and equipment	33,364	4,529	13,147	6,980	58,020
Amortisation of prepaid premium for land leases	2,415	328	951	505	4,199
Loss on disposal of property, plant and equipment	8,359	1,135	3,294	1,748	14,536
Provision for trade and bills receivables	213	29	84	44	370
<b>Timing of revenue recognition</b>					
At a point in time	807,165	109,559	318,053	168,896	1,403,673



# Notes to the Financial Statements

31 December 2019

## 6. SEGMENT INFORMATION (CONTINUED)

Reportable segment revenue represented revenue of the Group in the consolidated statement of comprehensive income. A reconciliation between the reportable segment profit and the Group's profit before taxation is set out below:

	2019 RMB'000	2018 RMB'000
Reportable segment profit	49,546	71,843
Other income and other gains	55,066	36,826
Administrative expenses	(67,126)	(58,106)
Other operating expenses	(2,648)	(17,807)
Finance costs	(24,889)	(25,189)
Share of loss of an associate	(484)	(514)
Profit before taxation	<b>9,465</b>	7,053

A reconciliation between the reportable segment depreciation of property, plant and equipment and loss on disposal of property, plant and equipment and the Group's depreciation of property, plant and equipment and loss on disposal of property, plant and equipment, respectively is set out below:

	2019 RMB'000	2018 RMB'000
Reportable depreciation of property, plant and equipment	54,692	58,020
Depreciation of property, plant and equipment under administrative expenses	5,578	7,825
Consolidated depreciation of property, plant and equipment	<b>60,270</b>	65,845
Reportable loss on disposal of property, plant and equipment	14,809	14,536
Under other operating expenses	1,269	13,412
Consolidated loss on disposal of property, plant and equipment	<b>16,078</b>	27,948

The following table set out information about the disaggregated revenue and geographical location of the Group's revenue from external customers. The geographical location of customers is determined based on the location at which the goods were delivered.

	2019 RMB'000	2018 RMB'000
<b>Local (Country of domicile)</b>		
PRC	803,528	745,816
<b>Export (Foreign countries)</b>		
Japan	215,833	305,131
Europe #	363,910	331,449
Others	27,264	21,277
	<b>1,410,535</b>	1,403,673

# Principally include Germany, France, Spain and Russia



# Notes to the Financial Statements

31 December 2019

## 6. SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2019, revenue from one customer of the Group's chilled and frozen chicken meat and processed foods segments amounted to RMB182.4 million (2018: RMB196.4 million), which represents 10% or more (2018: 10% or more) of the Group's revenues.

## 7. REVENUE AND OTHER INCOME AND OTHER GAINS

An analysis of the Group's revenue is as follows:

	2019 RMB'000	2018 RMB'000
<b>Revenue from contracts with customers</b>		
Sale of goods	<b>1,410,535</b>	1,403,673

The following table provides information about trade and bills receivables and contract liabilities from contracts with customers.

	2019 RMB'000	2018 RMB'000
Trade and bills receivables (note 23)	<b>114,597</b>	122,707
Contract liabilities (note 29)	<b>13,564</b>	7,988

The contract liabilities mainly related to the advance consideration received from customers which has been recognised as revenue for the year ended 31 December 2019.

As at 31 December 2019, the advance consideration received from customers of RMB13,564,000 represents unfulfilled performance obligations under the Group's existing contracts. This amount represents revenue expected to be recognised in the future. The Group will recognise the expected revenue in future when performance obligations is completed, which is expected to occur within one year.

An analysis of the Group's other income and other gains is as follows:

	2019 RMB'000	2018 RMB'000
<b>Other income and other gains</b>		
Interest income on financial assets stated at amortised cost	<b>4,651</b>	2,828
Amortisation of deferred income on government grants (note 33)	<b>3,339</b>	3,421
Government grants related to income*	<b>490</b>	3,251
Gains arising from changes in fair value less estimated costs to sell of biological assets, net (note 18)	<b>34,911</b>	10,528
Gain on disposal of subsidiaries (note 41)	<b>3,016</b>	5,167
Insurance claims	<b>1,486</b>	6,916
Others	<b>7,173</b>	4,715
	<b>55,066</b>	36,826

\* Various government grants have been received mainly from Qingdao City Huangdao District National Economic Centre (青島市黃島區國庫集中支付中心) and Nong An Animal Husbandry Bureau (農安縣畜牧業管理局) (2018: Qingdao City Huangdao District National Economic Centre (青島市黃島區國庫集中支付中心), Gaomi City Financial Institution (高密市財政局), Nong An Animal Husbandry Bureau (農安縣畜牧業管理局) and Qingdao City Huangdao District Municipal Industry and Information Technology Bureau (青島市黃島區工業和信息化局)) for the Group's business conducted in those areas. There are no unfulfilled conditions or contingencies related to these grants.



# Notes to the Financial Statements

31 December 2019

## 8. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging/(crediting):

	2019 RMB'000	2018 RMB'000
Cost of inventories recognised as an expense	1,072,480	1,055,997
Depreciation of property, plant and equipment*	60,270	65,845
Depreciation of right-of-use assets*	16,392	–
Amortisation of prepaid premium for land leases*	–	4,199
Provision for trade and bills receivables^	1,505	370
(Reversal of provision)/Provision for other receivables^	(449)	2,440
Write-off of inventories	842	–
Minimum lease payments under operating leases for production facilities under IAS 17	–	11,178
Audit fee paid to auditors:		
Auditors of the Company	1,657	1,652
Other auditors	233	217
Non-audit fee paid to auditors	383	–
Employees costs (including Directors' remuneration)	189,721	192,545
Retirement scheme contribution	12,692	11,602
Total employees costs#	202,413	204,147
Loss on disposal of property, plant and equipment^	16,078	27,948
Exchange loss/(gain), net	802	(4,069)

\* Depreciation of approximately RMB71,034,000 (2018: RMB57,997,000), approximately RMB50,000 (2018: RMB23,000) and approximately RMB5,578,000 (2018: RMB7,825,000) has been charged to cost of sales, selling and distribution costs and administrative expenses, respectively, for the year ended 31 December 2019. Amortisation of prepaid premium for land leases has had been charged to cost of sales for the year ended 31 December 2018.

# Total employees costs of approximately RMB160,462,000 (2018: RMB164,123,000), approximately RMB13,054,000 (2018: RMB11,627,000) and approximately RMB28,897,000 (2018: RMB28,397,000) has been charged to cost of sales, selling and distribution costs and administrative expenses, respectively, for the year ended 31 December 2019.

^ Provision for trade, bills and other receivables, reversal of provision for other receivables and loss on disposal of property, plant and equipment were included in other operating expenses for the years ended 31 December 2018 and 2019.





# Notes to the Financial Statements

31 December 2019

## 9. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest charges on bank borrowings	22,428	25,120
Interest charges on other borrowings	–	503
Interest on lease liabilities (note 35)	3,408	–
Less: Amount capitalised (note 14)	(947)	(434)
	<b>24,889</b>	<b>25,189</b>

Note: Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.85% (2018: 5.23%) to expenditure on qualifying assets.

## 10. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
PRC corporate income tax		
Current year provision	4,934	3,978
Under-provision in prior years	(249)	(2,123)
	<b>4,685</b>	<b>1,855</b>
Deferred tax credit (note 21)	(562)	(515)
Total income tax expense	<b>4,123</b>	<b>1,340</b>

No Hong Kong profits tax has been provided for the year ended 31 December 2019 as the Group did not derive any assessable profit arising in Hong Kong during the year (2018: Nil).

PRC corporate income tax is provided at the rates applicable to the subsidiaries in the PRC on the income for statutory reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretations thereof.

Qingdao Kangda Foods Co., Ltd. ("Kangda Foods") and Shandong Kaijia Food Company Limited ("Kaijia Food") are established and operating in the PRC and subject to PRC corporate income tax. According to the New PRC Corporate Income Tax Law, the profit arising from agricultural, poultry and primary food processing businesses of Kangda Foods and Kaijia Food are exempted from PRC corporate income tax. The taxable profits of Kangda Foods arising from profit from business other than agricultural, poultry and primary food processing are subject to corporate income tax at 25% for the years ended 31 December 2019 and 2018.

Under the New PRC Corporate Income Tax Law and Implementation Rules, enterprises that engage in qualifying agricultural business are eligible for certain tax benefits, including full exemption of corporate income tax on profits derived from such business. Qingdao Kangda Animal Rearing Company Ltd., Qingdao Kangda Rabbit Company Ltd., Gaomi Kaijia Rearing Co., Ltd. and Qingdao Kangda Modern Agricultural Technology Development Company Limited ("Modern Agricultural") engaged in qualifying agricultural business, which include breeding and sales of livestock, and are entitled to full exemption of corporate income tax during the years ended 31 December 2019 and 2018.

Tax has not been provided by the Company as the Company did not derive any assessable profits during the year (2018: Nil).



# Notes to the Financial Statements

31 December 2019

## 10. INCOME TAX EXPENSE (CONTINUED)

A reconciliation of the income tax expense and the accounting profit at applicable tax rates is presented below:

	2019 RMB'000	2018 RMB'000
Profit before taxation	<u>9,465</u>	<u>7,053</u>
Tax calculated at the rates applicable to respective subsidiaries	4,116	5,327
Tax effect of non-deductible expenses	7,879	11,908
Tax effect of non-taxable income	(682)	(4,520)
Tax holiday and other tax benefits of PRC subsidiaries	(7,078)	(7,864)
Tax effect on current year's unrecognised tax losses	699	934
Tax effect of utilisation of tax losses previously not recognised	–	(1,807)
De-recognition of deferred tax assets	(562)	(515)
Over-provision in prior years	(249)	(2,123)
Income tax expense	<u>4,123</u>	<u>1,340</u>

## 11. DIVIDENDS

The board of Directors did not recommend any payment of dividends during the year (2018: Nil).

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB4,366,000 (2018: RMB5,642,000) and on the 432,948,000 (2018: 432,948,000) ordinary shares in issue during the year.

For the years ended 31 December 2019 and 2018, the Company did not have any potential ordinary shares. Accordingly, diluted earnings per share are the same as basic earnings per share.



# Notes to the Financial Statements

31 December 2019

## 13. EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

Directors' emoluments are disclosed as follows:

	Fees RMB'000	Salaries, allowances and benefits* RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
<b>Year ended 31 December 2019</b>				
Executive directors:				
Fang Yu	4,406	-	-	4,406
Luo Zhenwu	1,498	-	-	1,498
Wang Yuan (note (i))	90	-	-	90
Li Wei	3,966	-	-	3,966
An Fengjun	-	400	-	400
Gao Yanxu	-	72	-	72
Independent non-executive directors:				
Song Xuejun	211	-	-	211
Lu Zhiwen	211	-	-	211
Lau Choon Hoong (note (ii))	180	-	-	180
Chan Ka Yin (note (iii))	16	-	-	16
Waiver of salary (note (iv))	-	(202)	-	(202)
	<b>10,578</b>	<b>270</b>	<b>-</b>	<b>10,848</b>
<b>Year ended 31 December 2018</b>				
Executive directors:				
Fang Yu	4,216	-	-	4,216
Luo Zhenwu	1,433	-	-	1,433
Wang Yuan (note (i))	101	-	-	101
Li Wei	3,794	-	-	3,794
An Fengjun	-	400	-	400
Gao Yanxu	-	72	-	72
Independent non-executive directors:				
Song Xuejun	211	-	-	211
Lu Zhiwen	211	-	-	211
Lau Choon Hoong (note (iii))	211	-	-	211
Waiver of salary (note (iv))	-	(220)	-	(220)
	<b>10,177</b>	<b>252</b>	<b>-</b>	<b>10,429</b>



# Notes to the Financial Statements

31 December 2019

## 13. EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS (CONTINUED)

### (a) Directors' emoluments (Continued)

Notes:

- (i) Wang Yuan resigned as an executive director of the Company on 7 November 2019.
  - (ii) Lau Choon Hoong resigned as an independent non-executive director of the Company on 7 November 2019.
  - (iii) Chan Ka Yin was appointed as an independent non-executive director of the Company on 7 November 2019.
  - (iv) For the year ended 31 December 2019, due to the cost-saving policy, executive directors Mr. An Fengjun and Mr. Gao Yanxu voluntarily agreed to waive their entitlement to certain remuneration of approximately RMB130,000 (2018: RMB220,000) and RMB72,000 (2018: nil) respectively.
- \* In connection with management of the affairs of the Company and its subsidiaries

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2018: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual during the year are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and other benefits	<u>1,144</u>	2,449

The number of individuals fell within the following emolument band (excluding the Directors):

	2019 RMB'000	2018 RMB'000
Emolument band		
Nil to HK\$1,000,000 (equivalent to Nil to RMB881,000)	2	–
HK\$1,000,000 to HK\$1,500,000 (equivalent to RMB881,000 to RMB1,322,000)	–	1
HK\$1,500,000 to HK\$2,000,000 (equivalent to RMB1,322,000 to RMB1,762,000)	<u>–</u>	1

- (c) No emolument was paid by the Group to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.



# Notes to the Financial Statements

31 December 2019

## 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>At 1 January 2018</b>						
Cost	784,836	350,420	24,450	1,541	912	1,162,159
Accumulated depreciation	(217,902)	(181,856)	(14,288)	(363)	–	(414,409)
Net carrying amount	566,934	168,564	10,162	1,178	912	747,750
Year ended 31 December 2018						
Opening net carrying amount	566,934	168,564	10,162	1,178	912	747,750
Additions <sup>#</sup>	1,940	24,801	352	–	9,037	36,130
Transfer in/(out)	1,259	428	–	–	(1,687)	–
Disposal	(13,778)	(14,749)	(248)	(3)	–	(28,778)
Disposal of subsidiaries (note 41)	(5,893)	(4,497)	(402)	(102)	(761)	(11,655)
Depreciation charge	(34,274)	(29,425)	(1,946)	(200)	–	(65,845)
Closing net carrying amount	516,188	145,122	7,918	873	7,501	677,602
<b>At 31 December 2018 and 1 January 2019</b>						
Cost	759,430	274,302	22,387	1,407	7,501	1,065,027
Accumulated depreciation	(243,242)	(129,180)	(14,469)	(534)	–	(387,425)
Net carrying amount	516,188	145,122	7,918	873	7,501	677,602
<b>Year ended 31 December 2019</b>						
Opening net carrying amount	516,188	145,122	7,918	873	7,501	677,602
Additions <sup>#</sup>	5,526	61,083	990	105	20,518	88,222
Transfer in/(out)	–	7,134	–	–	(7,134)	–
Disposal	(10,152)	(5,789)	(132)	(5)	–	(16,078)
Disposal of a subsidiary (note 41)	(1,359)	(966)	–	(1)	(24)	(2,350)
Depreciation charge	(33,240)	(26,193)	(804)	(33)	–	(60,270)
Closing net carrying amount	476,963	180,391	7,972	939	20,861	687,126
<b>At 31 December 2019</b>						
Cost	747,908	301,236	22,470	1,495	20,861	1,093,970
Accumulated depreciation	(270,945)	(120,845)	(14,498)	(556)	–	(406,844)
Net carrying amount	476,963	180,391	7,972	939	20,861	687,126

<sup>#</sup> Including borrowing costs of RMB947,000 (2018: RMB434,000) capitalised during the year (note 9) and payables for property, plant and equipment of RMB23,310,000 (2018: RMB15,947,000) (note 28).

Certain of the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB38,505,000 (2018: RMB42,452,000) were pledged against certain of the Group's bank borrowings as at 31 December 2019 (note 30).

All property, plant and equipment held by the Group are located in the PRC.



# Notes to the Financial Statements

31 December 2019

## 15. PREPAID PREMIUM FOR LAND LEASES

	Land use rights RMB'000	Prepaid land lease RMB'000	Long-term prepaid rentals RMB'000	Total RMB'000
<b>At 1 January 2018</b>				
Cost	75,593	12,138	59,795	147,526
Accumulated amortisation	(15,740)	(2,833)	(16,722)	(35,295)
Net carrying amount	59,853	9,305	43,073	112,231
<b>Year ended 31 December 2018</b>				
Opening net carrying amount	59,853	9,305	43,073	112,231
Addition	–	–	30	30
Disposal of subsidiaries (note 41)	(6,738)	–	–	(6,738)
Amortisation for the year	(1,759)	(607)	(1,833)	(4,199)
Closing net carrying amount	51,356	8,698	41,270	101,324
<b>At 31 December 2018 and 1 January 2019</b>				
Cost	67,274	12,138	59,825	139,237
Accumulated amortisation	(15,918)	(3,440)	(18,555)	(37,913)
Net carrying amount, as originally presented	51,356	8,698	41,270	101,324
Initial application of IFRS 16 (note 2(a)(i))	(51,356)	(8,698)	(41,270)	(101,324)
<b>Net carrying amount, as restated</b>	–	–	–	–

Long-term prepaid rentals were paid by the Group for leasing of certain farm land in the PRC.

Prepaid land lease represented the upfront payments of the land portion of an owned-occupied commercial building.

Certain of the Group's land use rights with an aggregate carrying amount approximately RMB38,152,000 were pledged against certain of the Group's bank borrowings as at 31 December 2018.



# Notes to the Financial Statements

31 December 2019

## 16. INTERESTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	<u>1,742</u>	<u>2,226</u>

Particulars of the associates as at 31 December 2019 and 2018 are as follows:

Name of associates	Form of business structure	Place of registration and principal place of business	Particulars of paid up capital		Percentage of ownership interest held		Principal activities
			2019	2018	2019	2018	
吉林康大兔業有限公司 Jilin Kangda Rabbit Co., Ltd	Co-operative joint venture	PRC	RMB10,000,000	RMB10,000,000	35	35	Breeding and sale of rabbits for medicinal uses and trading of rabbits
南德商品檢測(青島)有限公司	Co-operative joint venture	PRC	RMB10,000,000	RMB10,000,000	30	30	Testing and checking on the livestock

The associates have a reporting date of 31 December.

The financial information as extracted from the management accounts of the immaterial associates are as follows:

	2019 RMB'000	2018 RMB'000
<b>As at 31 December</b>		
Current assets	5,941	7,353
Non-current assets	13,124	14,386
Current liabilities	(24,979)	(21,729)
Non current liabilities	(1,400)	(1,400)
<b>For the year ended 31 December</b>		
Revenue	13,381	4,583
Loss for the year	(5,924)	(3,147)
Total comprehensive income	<u>(5,924)</u>	<u>(3,147)</u>

The Group has not incurred any contingent liabilities or other commitments relating to its investments in the associates.

The amount of share of unrecognised loss during the year ended 31 December 2019 and as at 31 December 2019 are RMB1,508,000 (2018: RMB502,000) and RMB4,592,000 (2018: RMB3,084,000) respectively.



# Notes to the Financial Statements

31 December 2019

## 17. GOODWILL

	2019 RMB'000	2018 RMB'000
At the beginning and at the end of the year		
Gross carrying amount	59,428	59,428
Accumulated impairment loss	(2,650)	(2,650)
Disposal of a subsidiary (note 41)	(423)	–
Net carrying amount	<u>56,355</u>	<u>56,778</u>

Goodwill acquired in business combinations of RMB56,355,000, RMB423,000 and RMB2,650,000 are allocated to Kaijia Food and Shangdong Kaijia International Trading Co., Ltd (collectively referred to as "Kaijia Group"), Modern Agricultural and Qingdao Pu De Food Company Limited ("Pu De") respectively, under cash-generating units of chicken products operation, processed food operation and vegetables operation of the Group respectively.

The recoverable amounts of these cash-generating units are determined from value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates, budgeted gross margin and revenue during the period. Cash flow beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2018: 3%), which does not exceed the long-term growth rate for the food production industry in the PRC. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash-generating units. The growth rates, budgeted gross margin and revenue are determined based on the past performance and management's expectation of market development.

The rate used to discount the forecast cash flows from Kaijia Group are 11.58% (2018: Kaijia Group and Modern Agricultural were 11.93%) per annum.

In prior years, full impairment loss on goodwill of Pu De of RMB2,650,000 was recognised since Pu De ceased its business operation since 2014.





# Notes to the Financial Statements

31 December 2019

## 18. BIOLOGICAL ASSETS

### (a) Reconciliation of the carrying amount of biological assets

	Breeder rabbits RMB'000	Progeny rabbits RMB'000	Breeder chickens RMB'000	Hatchable eggs and progeny chickens RMB'000	Vegetables RMB'000	Total RMB'000
At 1 January 2018	18,892	18,070	12,006	25,697	99	74,764
Increase due to purchases/raising	122,406	183,685	142,164	237,212	334	685,801
(Losses)/Gains arising from changes in fair value less estimated costs to sell	(6,667)	(3,383)	5,685	14,893	–	10,528
Decrease due to consumption/sales	(117,635)	(177,336)	(146,822)	(262,045)	(407)	(704,245)
Disposal of subsidiaries (note 41)	(6,690)	(8,140)	–	–	–	(14,830)
At 31 December 2018 and 1 January 2019	<b>10,306</b>	<b>12,896</b>	<b>13,033</b>	<b>15,757</b>	<b>26</b>	<b>52,018</b>
Increase due to purchases/raising	<b>171,210</b>	<b>111,292</b>	<b>136,505</b>	<b>265,742</b>	–	<b>684,749</b>
Gains/(Losses) arising from changes in fair value less estimated costs to sell	<b>3,079</b>	<b>19,206</b>	<b>(1,237)</b>	<b>13,863</b>	–	<b>34,911</b>
Decrease due to consumption/sales	<b>(168,284)</b>	<b>(133,193)</b>	<b>(125,115)</b>	<b>(270,807)</b>	–	<b>(697,399)</b>
Disposal of a subsidiary (note 41)	–	–	–	–	(26)	(26)
<b>At 31 December 2019</b>	<b>16,311</b>	<b>10,201</b>	<b>23,186</b>	<b>24,555</b>	–	<b>74,253</b>

The progeny rabbits, hatchable eggs and progeny chickens and vegetables are raised for sale and consumption in production. The breeder rabbits and chickens are held to produce further progeny rabbits and hatchable eggs and progeny chickens.

Biological assets as at 31 December 2019 and 2018 are stated at fair values less estimated costs to sell and are analysed as follows:

	2019 RMB'000	2018 RMB'000
Non-current portion	<b>39,497</b>	23,339
Current portion	<b>34,756</b>	28,679
	<b>74,253</b>	52,018



# Notes to the Financial Statements

31 December 2019

## 18. BIOLOGICAL ASSETS (CONTINUED)

### (b) Physical quantities

The physical quantity of rabbits, chickens, eggs and vegetables as at 31 December 2019 and 2018 are analysed as follows:

	2019 Number of Rabbits/ Chickens/Eggs	2018 Number of Rabbits/ Chickens/Eggs/ Vegetables
Progeny rabbits	621,453	653,850
Breeder rabbits	185,303	137,522
	<b>806,756</b>	791,372
Progeny chickens	1,949,764	1,075,870
Breeder chickens	324,487	189,614
	<b>2,274,251</b>	1,265,484
Hatchable eggs	1,678,119	2,245,452
Vegetables (in tonnes)	–	7

### (c) Measurement of fair value

The fair values of the biological assets as at 31 December 2019 and 2018 except vegetables were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of independent professional valuers, who has appropriate qualifications and recent experiences in valuation of biological assets.

The fair value of biological assets is a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below.

	2019					
	Breeder rabbits RMB'000	Progeny rabbits RMB'000	Breeder chickens RMB'000	Hatchable eggs and progeny chickens RMB'000	Vegetables RMB'000	Total RMB'000
Closing balance (level 3 recurring fair value)	10,306	12,896	13,033	15,757	26	52,018
Increase due to purchases/raising Gains/(Losses) included in other income	171,210	111,292	136,505	265,742	–	684,749
Decrease due to consumption/sales	3,079	19,206	(1,237)	13,863	–	34,911
Disposal of subsidiaries (note 41)	(168,284)	(133,193)	(125,115)	(270,807)	–	(697,399)
	–	–	–	–	(26)	(26)
Closing balance (level 3 recurring fair value)	<b>16,311</b>	<b>10,201</b>	<b>23,186</b>	<b>24,555</b>	–	<b>74,253</b>
Change in unrealised gains or losses for the year included in profit or loss for assets held at 31 December	3,079	1,188	(1,237)	(2,087)	–	943



# Notes to the Financial Statements

31 December 2019

## 18. BIOLOGICAL ASSETS (CONTINUED)

### (c) Measurement of fair value (Continued)

	2018					Total RMB'000
	Breeder rabbits RMB'000	Progeny rabbits RMB'000	Breeder chickens RMB'000	Hatchable eggs and progeny chickens RMB'000	Vegetables RMB'000	
Opening balance (level 3 recurring fair value)	18,892	18,070	12,006	25,697	99	74,764
Increase due to purchases/raising	122,406	183,685	142,164	237,212	334	685,801
(Losses)/Gains included in other income	(6,667)	(3,383)	5,685	14,893	–	10,528
Decrease due to consumption/sales	(117,635)	(177,336)	(146,822)	(262,045)	(407)	(704,245)
Disposal of subsidiaries (note 41)	(6,690)	(8,140)	–	–	–	(14,830)
Closing balance (level 3 recurring fair value)	10,306	12,896	13,033	15,757	26	52,018
Change in unrealised gains or losses for the year included in profit or loss for assets held at 31 December	249	639	(2,614)	(50)	–	(1,776)

The fair value of the biological assets is determined by using the market-comparison technique and is with reference to the market-determined prices of items with similar size, species, age and weight. These adjustments are based on unobservable inputs.

#### Significant unobservable inputs

	2019 Range	2018 Range
Weight	5% – 24%	2% – 29%

The higher the premium/discount on weight is, the higher/lower the fair value of the biological assets is.

There were no changes to the valuation technique during the period.



# Notes to the Financial Statements

31 December 2019

## 19. RIGHT-OF-USE ASSETS

The analysis of the net carrying amount of right-of-use assets by class of underlying asset is as follows:

	Land use rights RMB'000	Prepaid land lease RMB'000	Long-term prepaid rentals RMB'000	Land lease contracts RMB'000	Total RMB'000
<b>At 31 December 2018, as previously stated</b>	–	–	–	–	–
Initial application of IFRS 16 (note 2(a)(i))	51,356	8,698	41,270	41,837	143,161
<b>At 1 January 2019, as restated</b>	51,356	8,698	41,270	41,837	143,161
Additions (note 35)	–	–	–	24,180	24,180
Depreciation charges	(1,758)	(607)	(1,832)	(12,195)	(16,392)
<b>Closing net carrying amount</b>	<b>49,598</b>	<b>8,091</b>	<b>39,438</b>	<b>53,822</b>	<b>150,949</b>

Long-term prepaid rentals were paid by the Group for leasing of certain farm land in the PRC.

During the year ended 31 December 2007, long-term prepaid rentals of RMB22,150,000 was paid by the Group for leasing of a plot of land in the PRC with a site area of 300 Chinese mu. The Group is in the process of applying for the land use right certificates for this land. During the years ended 31 December 2008 and 2009, land use right certificates of 60 Chinese mu and 78 Chinese mu had been obtained. The Directors, based on the opinion from a PRC lawyer, do not expect any legal obstacles for the Group in obtaining the relevant title certificate for the remaining 162 Chinese mu. The Group is in the process of applying for the land use right certificates for this land.

Prepaid land lease represented the upfront payments of the land portion of an owned-occupied commercial building.

Certain of the Group's land use rights with an aggregate carrying amount approximately RMB37,121,000 were pledged against certain of the Group's bank borrowings as at 31 December 2019 (note 30).

## 20. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December 2019 and 2018, the Group had 10% unlisted equity interest in Chongqing Juxin Rabbit Co., Ltd. ("Chongqing Kangda"). The aforesaid investment was designated at fair value through other comprehensive income. In the opinion of the Directors, the fair value of the 10% unlisted equity interest in Chongqing Kangda was nil.



# Notes to the Financial Statements

31 December 2019

## 21. DEFERRED TAX ASSETS/(LIABILITIES)

Deferred taxation is calculated in full on temporary differences under the liability method using the principal tax rate of 25% (2018: 25%).

The movements on the deferred tax assets/(liabilities) are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	(4,144)	(4,620)
Deferred taxation credited to profit or loss (note 10)	562	515
Disposal of a subsidiary (note 41)	(5)	(39)
At 31 December	<b>(3,587)</b>	(4,144)

The principal components of the deferred tax assets/(liabilities) are as follows:

	Fair value adjustment on property, plant and equipment, intangible assets and land use rights upon business combination RMB'000	Deferred government grants RMB'000	Total RMB'000
At 1 January 2018	(6,211)	1,591	(4,620)
Recognised in profit or loss	879	(364)	515
Disposal of subsidiaries (note 41)	-	(39)	(39)
At 31 December 2018 and 1 January 2019	(5,332)	1,188	(4,144)
Recognised in profit or loss	879	(317)	562
Disposal of a subsidiary (note 41)	-	(5)	(5)
<b>At 31 December 2019</b>	<b>(4,453)</b>	<b>866</b>	<b>(3,587)</b>

As at 31 December 2019, the Group's had unused tax losses of RMB24.8 million (2018: RMB24.9 million) available for offset against future profits. No deferred tax asset has been recognised in respect of these tax losses as it is not probable that future taxable profits will be available against which these tax losses can be utilised. Tax losses of RMB24.8 million (2018: RMB24.9 million) will expire at various dates up to and including 2024.

No deferred tax liabilities had been recorded on certain temporary differences of RMB45,075,000 (2018: RMB36,491,000) relating to the undistributed earnings of certain subsidiaries in the PRC of RMB450,745,000 (2018: RMB364,915,000) because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.



# Notes to the Financial Statements

31 December 2019

## 22. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	59,399	54,946
Finished goods	75,457	69,911
	<b>134,856</b>	124,857

## 23. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade and bill receivables	105,938	102,162
Bills receivables	11,600	22,550
Less: provision for impairment	(2,941)	(2,005)
Trade and bills receivables – net	<b>114,597</b>	122,707

Trade and bills receivables are non-interest bearing and are generally on terms of 30 to 90 days. They are recognised at their original invoice amounts which represent their fair values at initial recognition.

The ageing analysis of trade and bills receivables based on invoice dates as at the reporting date is as follows:

	2019 RMB'000	2018 RMB'000
Within 30 days	83,874	90,567
31 – 60 days	19,777	27,962
61 – 90 days	236	2,625
91 – 120 days	10,710	566
Over 120 days	–	987
	<b>114,597</b>	122,707

Before accepting any new customer, the Group will assess the potential customer's credit quality and set credit limits for that customer. Limits attributed to customers are reviewed once a year. Further details on the Group's credit policy are set out in note 42.

The maximum exposure to credit risk for trade and bills receivables at the reporting date by geographic region is:

	2019 RMB'000	2018 RMB'000
PRC	57,724	59,643
Japan	6,800	5,058
Europe	44,798	57,854
Others	5,275	152
	<b>114,597</b>	122,707



# Notes to the Financial Statements

31 December 2019

## 23. TRADE AND BILLS RECEIVABLES (CONTINUED)

At 31 December 2019, the Group endorsed certain notes receivable accepted by banks in the PRC (the “Endorsed Notes”) to certain of its suppliers in order to settle the trade and other payables due to these suppliers with an aggregate carrying amount of RMB15,450,000 (2018: RMB323,550,000). The Endorsed Notes had a maturity from three to twelve months at the end of the reporting period. In accordance with the relevant laws and regulations in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the accepting banks default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Endorsed Notes. Accordingly, it has derecognised the full carrying amounts of the Endorsed Notes and the associated trade and other payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Endorsed Notes and the undiscounted cash flows to repurchase these Endorsed Notes is equal to their carrying amounts. In the opinion of the directors of the Company, the fair values of the Group’s Continuing Involvement in the Endorsed Notes are not significant.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Endorsed Notes. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

## 24. PREPAYMENTS, OTHER RECEIVABLES AND DEPOSITS

	2019 RMB'000	2018 RMB'000
Prepayments	30,895	19,238
Other receivables and deposits <sup>#</sup>	15,006	13,448
Advance payment to an associate	2,588	2,588
Less: provision for impairment	(2,699)	(3,148)
	<b>45,790</b>	<b>32,126</b>

<sup>#</sup> The balances mainly represent rental deposits and advance payments to various suppliers.

The movement in the provision for other receivables is as follows:

	2019 RMB'000	2018 RMB'000
Balance at the beginning of the year	3,148	9,897
Impairment losses recognised	–	2,440
Reversal of impairment loss	(449)	–
Disposal of subsidiaries (note 41)	–	(9,189)
Balance at the end of the year	<b>2,699</b>	<b>3,148</b>



# Notes to the Financial Statements

31 December 2019

## 25. AMOUNT DUE FROM A FORMER SUBSIDIARY

	2019 RMB'000	2018 RMB'000
Amount due from a former subsidiary	1,860	1,860
Less: provision for impairment	(1,860)	(1,860)
	<u>–</u>	<u>–</u>

As at 31 December 2019, the balance represented the amount due from Chongqing Kangda which is interest-free, unsecured and repayable on or before 31 December 2019. In view of the default in repayment, an impairment loss of RMB1,860,000 was recognised in the consolidated statement of comprehensive income in prior years. This amount due was considered as a credit-impaired financial assets at amortised cost, thus, the carrying amount is nil as at 31 December 2019 and 2018.

There is no change in the provision for the amount due from a former subsidiary.

## 26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Short-term deposits	30,012	317,145
Cash and bank balances	185,335	270,822
	<u>215,347</u>	587,967
Deposits pledged for bills payables (note 27)	(35,880)	(291,100)
Deposits pledged for bank borrowing (note 30)	(20,000)	(20,000)
	<u>159,467</u>	276,867

The Group had cash and bank balances and pledged deposits denominated in RMB amounting to approximately RMB185,450,000 as at 31 December 2019 (2018: RMB579,692,000) which were deposited with banks in the PRC. RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

The bank balances earn interest at floating rates based on daily bank deposit rates. The short-term deposits are made for varying periods between one day to nine months (2018: one day to nine months) and earn interest ranged from 0.58% to 1.65% (2018: 0.58% to 1.65%) per annum as at 31 December 2019.





# Notes to the Financial Statements

31 December 2019

## 27. TRADE AND BILLS PAYABLES

Trade payables are non-interest bearing and are normally settled on terms of 60 days. Bills payables refer to payables due to third party suppliers which were guaranteed by bank for settlement in accordance to banking facilities and are non-interest bearing, secured by the pledged deposits (note 26) and are normally settled on terms of 180 days.

	2019 RMB'000	2018 RMB'000
Trade payables	167,435	161,156
Bills payables	38,110	346,000
	<b>205,545</b>	<b>507,156</b>

The ageing analysis of trade and bills payables based on invoice dates as at the reporting date is as follows:

	2019 RMB'000	2018 RMB'000
Within 60 days	119,347	251,033
61 – 90 days	33,120	77,341
91 – 120 days	17,778	54,730
Over 120 days	35,300	124,052
	<b>205,545</b>	<b>507,156</b>

## 28. ACCRUED LIABILITIES AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Accrued liabilities	42,738	51,645
Other payables*	66,359	45,110
Payables for property, plant and equipment	23,310	15,947
	<b>132,407</b>	<b>112,702</b>

\* The balances mainly represented payables for property, plant and equipment.

## 29. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Contract liabilities arising from sale of goods	13,564	7,988

Typical payment terms which impact on the amount of contract liabilities are as follows:

### Sale of goods

As noted above, certain deposit the Group receives on sale of goods remains as a contract liability until such time as the work completed to date outweighs it.



# Notes to the Financial Statements

31 December 2019

## 29. CONTRACT LIABILITIES (CONTINUED)

### Movement in contract liabilities

	2019 RMB'000	2018 RMB'000
Balance as at 1 January	7,988	2,754
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(7,988)	(2,754)
Increase in contract liabilities as a result of billing in advance of manufacturing activities	13,564	7,988
Balance at 31 December	<u>13,564</u>	<u>7,988</u>

## 30. INTEREST-BEARING BANK BORROWINGS

	2019 RMB'000	2018 RMB'000
<b>Interest-bearing bank borrowings</b>		
Classified as current liabilities	<u>334,000</u>	384,000

As at 31 December 2019, the Group's interest-bearing borrowings were repayable as follows:

	2019 RMB'000	2018 RMB'000
Portion of term loans from banks due for repayable within one year	<u>334,000</u>	384,000

Total secured interest-bearing bank borrowings are approximately RMB334,000,000 (2018: RMB384,000,000) as at 31 December 2019.

As at 31 December 2019, the Group's interest-bearing bank borrowings are guaranteed by certain related parties of the Group (note 45(a)(iii)) and secured against pledge of certain of the Group's property, plant and equipment (note 14), right-of-use assets (note 19), and cash and bank deposit (note 26).

The Group's interest-bearing bank borrowings bear interests ranging from 4.79% to 6.00% (2018: 4.70% to 6.00%) per annum as at 31 December 2019.

## 31. AMOUNT DUE TO A RELATED PARTY

The related party is a company in which Mr. Gao Sishi is a key management personnel of the major subsidiaries of the Company, have beneficial interest.

The amount due to a related party is mainly trade and financing in nature, unsecured, interest-free and repayable on demand.

## 32. LOAN FROM IMMEDIATE HOLDING COMPANY

	2019 RMB'000	2018 RMB'000
Loan from immediate holding company	<u>26,848</u>	—

As at 31 December 2019, the amount due was unsecured, interest-free and due for repayment on 11 September 2020.



# Notes to the Financial Statements

31 December 2019

## 33. DEFERRED GOVERNMENT GRANTS

	2019 RMB'000	2018 RMB'000
At the beginning of the year	21,958	24,432
Additions	–	1,105
Disposal of subsidiaries (note 41)	(160)	(158)
Recognised as income during the year (note 7)	(3,339)	(3,421)
At the end of the year	18,459	21,958
Portion classified as current liabilities	(3,249)	(3,339)
Non-current portion	15,210	18,619

During the year ended 31 December 2018, the Group received certain government subsidies with an aggregate amount of RMB1,105,000. The additional grants were mainly received from Qingdao City Huangdao District National Economic Center (青島市黃島區國庫集中支付中心) and Gaomi City Financial Institution (高密市財政局), Nong An Animal Husbandry Bureau (農安縣畜牧業管理局) and Qingdao City Huangdao District Municipal Industry and Information Technology Bureau (青島市黃島區工業和信息化局) for the purpose of acquiring production facilities. Since the Group fulfilled the conditions attaching to the government grants, the Group recognised the government grants as deferred income over the expected useful lives of the relevant assets of 10 to 20 years.

## 34. OTHER BORROWINGS

	2019 RMB'000	2018 RMB'000
<b>Other borrowings</b>		
Classified as current liabilities	22,145	38,887
Classified as non-current liabilities	–	264

As at 31 December 2019, the Group has other borrowings of RMB22,145,000 which are unsecured, interest bearing ranging from 3% to 3.5% per annum and repayable in various dates on 28 January 2020 and 24 March 2020.

As at 31 December 2018, the Group has other borrowings of RMB39,151,000 are unsecured, interest bearing ranging from 3.0% to 6.95% per annum and repayable in various dates on 29 March 2019, 29 April, 2019, 9 October 2019, 13 June 2019, 13 August 2019, 15 November 2019 and 28 January 2020 respectively.



# Notes to the Financial Statements

31 December 2019

## 35. LEASE LIABILITIES

The Group leased certain of its land and buildings under operating lease arrangements. Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The present value of future lease payments of the Group's leases are analysed as:

	2019 RMB'000
Current	8,347
Non-current	46,891
	<b>55,238</b>

Reconciliation of the Group's leases liabilities arising from financing activities:

	2019 RMB'000
Initial application of IFRS 16 (note 2(a))	36,479
Changes from cash flows:	
Repayment of lease liabilities	(8,829)
Other changes:	
Addition of new leases	24,180
Interest expenses	3,408
As at 31 December	<b>55,238</b>

The future lease payments of the Group's leases (excluding short-term leases) were scheduled to repay as follows:

	Minimum lease payments RMB'000	Principal RMB'000	Interest RMB'000
As at 31 December 2019			
Not later than one year	11,300	11,049	(251)
One year to two years	9,856	9,062	(794)
Later than two years but not later than five years	23,211	19,189	(4,022)
Later than five years	41,926	15,938	(25,988)
	<b>86,293</b>	<b>55,238</b>	<b>(31,055)</b>
As at 1 January 2019			
Not later than one year	4,679	3,922	(757)
One year to two years	7,220	6,413	(807)
Later than two years but not later than five years	16,689	13,860	(2,829)
Later than five years	18,795	12,284	(6,511)
	47,383	36,479	(10,904)



# Notes to the Financial Statements

31 December 2019

## 36. SHARE CAPITAL

<b>Ordinary shares of HK\$0.25 each</b>	<b>Number of shares</b> '000	<b>Amount</b> HK\$'000
<b>Authorised:</b>		
At 31 December 2019 and 2018	2,000,000	500,000
<b>Issued and fully paid:</b>		
At 31 December 2019 and 2018	432,948	108,327

The issued and fully paid share capital is equivalent to approximately RMB112,176,000 as at 31 December 2019 and 2018. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally will regard to the Company's residual assets.

## 37. RESERVES

### Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

### Company

	Share premium RMB'000	Merger reserve RMB'000	Capital redemption reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2018	257,073	6,143	2,374	(78,627)	186,963
Loss for the year	-	-	-	(17,967)	(17,967)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(17,967)	(17,967)
At 31 December 2018 and 1 January 2019	257,073	6,143	2,374	(96,594)	168,996
Loss for the year	-	-	-	(19,663)	(19,663)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(19,663)	(19,663)
<b>At 31 December 2019</b>	<b>257,073</b>	<b>6,143</b>	<b>2,374</b>	<b>(116,257)</b>	<b>149,333</b>



# Notes to the Financial Statements

31 December 2019

## 37. RESERVES (CONTINUED)

### Group and Company

#### (a) *Merger reserve*

The merger reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange thereof as a result of a restructuring exercise of the Group in 2006.

The merger reserve of the Company represents the difference between the net tangible asset value of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange thereof as a result of the Group's restructuring exercise in 2006.

#### (b) *Capital redemption reserve*

The capital redemption reserve of the Group represents the nominal value of the share capital of the Company repurchased and cancelled.

#### (c) *Other reserves*

In accordance with the relevant laws and regulations of the PRC, the subsidiaries of the Company established in the PRC are required to transfer 10% of its profit after taxation determined in accordance with the accounting regulations in the PRC to the other reserve until the reserve balance reaches 50% of the respective registered capital of the PRC subsidiaries.

During the previous years, the subsidiaries of the Company established in the PRC has discretionarily transferred 5% of its profit after taxation prepared in accordance with the accounting regulations in the PRC to the public welfare reserve. The use of the public welfare reserve is restricted to capital expenditure for employees' facilities. This public welfare reserve is non-distributable except upon liquidation of the PRC subsidiaries. No public welfare reserve had been provided since financial year ended 31 December 2006.



# Notes to the Financial Statements

31 December 2019

## 38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2019 RMB'000	2018 RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	39	<b>84,152</b>	84,144
Total non-current assets		<b>84,152</b>	84,144
<b>Current assets</b>			
Prepayments, other receivables and deposits		<b>89</b>	89
Amounts due from subsidiaries		<b>180,762</b>	210,049
Cash and cash equivalents		<b>5</b>	5
Total current assets		<b>180,856</b>	210,143
<b>Current liabilities</b>			
Accrued liabilities and other payables		<b>3,499</b>	13,115
<b>Net current assets</b>		<b>177,357</b>	197,028
<b>Total assets less current liabilities/Net assets</b>		<b>261,509</b>	281,172
<b>EQUITY</b>			
Share capital	36	<b>112,176</b>	112,176
Reserves	37	<b>149,333</b>	168,996
<b>Total equity</b>		<b>261,509</b>	281,172



# Notes to the Financial Statements

31 December 2019

## 39. SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2019 and 2018 are as follows:

Name of subsidiaries	Place of incorporation/ registration and principal place of business	Nominal value of share/paid-up capital		Percentage of equity attributable to the Company		Principal activities
		2019	2018	2019	2018	
Directly held: 美好集團有限公司 Perfect Good Group Ltd.	British Virgin Islands ("BVI"), limited liability company	US\$10,000	US\$10,000	100	100	Investment holding
天元裕業有限公司 Tian Yuan Rong Ye Co., Ltd	Cayman Island, limited liability company	US\$50,000	US\$50,000	100	100	Investment holding
Indirectly held: 神域集團有限公司 Spirtizone Group Ltd.	BVI, limited liability company	US\$100	US\$100	100	100	Investment holding
青島康大食品有限公司 Kangda Foods	PRC, limited liability company	US\$20,000,000	US\$20,000,000	100	100	Production of food products
青島康大海青食品有限公司 Qingdao Kangda Haiqing Foods Co., Ltd.	PRC, limited liability company	US\$800,000	US\$800,000	100	100	Production of food products
青島康大綠寶食品有限公司 Qingdao Kangda Lubao Foods Co., Ltd.	PRC, limited liability company	US\$5,000,000	US\$5,000,000	100	100	Trading of food products
青島莫爾利食品有限公司 Qingdao Murle Foods Co., Ltd.	PRC, limited liability company	US\$11,000,000	US\$11,000,000	100	100	Inactive
青島康大養殖有限公司 Qingdao Kangda Animal Rearing Co., Ltd.	PRC, limited liability company	RMB3,000,000	RMB3,000,000	100	100	Breeding and sales of livestock and poultry
青島康大兔業發展有限公司 Qingdao Kangda Rabbit Co., Ltd.	PRC, limited liability company	RMB5,000,000	RMB5,000,000	100	100	Breeding and sales of rabbits
青島康大歐洲兔業育種有限公司 Qingdao Kangda-Eurolap Rabbit Selection Co., Ltd.	PRC, limited liability company	RMB13,980,000	RMB13,980,000	70	70	Breeding and sales of rabbits
青島康大現代農業科技發展有限公司 Modern Agricultural*	PRC, limited liability company	RMB10,000,000	RMB10,000,000	-	100	Planting and selling of vegetables
青島百順食品有限公司 Qingdao Baishun Food Company Limited	PRC, limited liability company	RMB1,000,000	RMB1,000,000	100	100	Inactive





# Notes to the Financial Statements

31 December 2019

## 39. SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ registration and principal place of business	Nominal value of share/paid-up capital		Percentage of equity attributable to the Company		Principal activities
		2019	2018	2019	2018	
Indirectly held: 青島康大分析檢測有限公司 Qingdao Kangda Analysis and Testing Co., Ltd.	PRC, limited liability company	RMB1,000,000	RMB1,000,000	100	100	Testing and checking on the livestock
青島普德食品有限公司 Pu De	PRC, limited liability company	US\$4,000,000	US\$4,000,000	55	55	Inactive
山東凱加食品有限公司 Kaijia Food	PRC, limited liability company	RMB100,000,000	RMB100,000,000	100	100	Production of food products
山東凱加國貿有限公司 Shandong Kaijia International Trading Co., Ltd. ("Kaijia Trading")	PRC, limited liability company	RMB46,670,000	RMB46,670,000	70	70	Trading of food products
高密凱加養殖有限公司 Gaomi Kaijia Rearing Co., Ltd.	PRC, limited liability company	RMB39,253,051	RMB39,253,051	100	100	Breeding and sales of livestock and poultry
天元佑善(天津)健康諮詢有限公司 Tian Yuan You Shan (Tianjin) Health Consultancy Co., Ltd.#	PRC, limited liability company	HKD 1,000,000	HKD 1,000,000	-	80	Consultancy service
天元佑善(北京)醫藥有限公司 Tian Yuan You Shan (Beijing) Pharmacy Co., Ltd	PRC, limited liability company	HKD 1,000,000	HKD 1,000,000	100	100	Retail and wholesale, consultancy service
天元佑善有限公司 Tian Yuan You Shan Co, Ltd (HK)	HK, limited liability company	HKD 100	HKD 100	100	100	Investment holding
天元佑善健康管理有限公司 Tian Yuan You Shan Health Management Co., Ltd	HK, limited liability company	HKD 100	HKD 100	80	80	Investment holding

None of the subsidiaries had issued any debt securities at the end of the year.

\* Subsidiary being disposed of during the year ended 31 December 2019 (note 41).

# Subsidiary being dissolved during the year ended 31 December 2019.



# Notes to the Financial Statements

31 December 2019

## 39. SUBSIDIARIES (CONTINUED)

### Non-controlling interests

Kaijia Trading, a 70% owned subsidiary of the Company, has material non-controlling interests of 30% which is material to the Group. The non-controlling interests of all other subsidiaries that are not 100% owned by the Group are considered to be immaterial.

Summarised financial information in relation to Kaijia Trading, before intra-group eliminations, is presented below:

	2019 RMB'000	2018 RMB'000
<b>For the year ended 31 December</b>		
Revenue	8,213	9,194
Profit for the year	1,786	2,927
Total comprehensive income for the year	1,786	2,927
Profit allocated to non-controlling interests	536	878
<b>For the year ended 31 December</b>		
Cash flows generated from operating activities	498	231
Cash flows used in investing activities	(341)	(9)
Cash flows used in financing activities	-	-
Net cash inflow	157	222
<b>As at 31 December</b>		
Current assets	31,989	27,418
Non-current assets	21,257	23,695
Current liabilities	(1,167)	(820)
Net assets	52,079	50,293
Accumulated non-controlling interests	15,624	15,088



# Notes to the Financial Statements

31 December 2019

## 40. COMMITMENTS

### (a) Operating lease commitments

As at 31 December 2018, except for the prepaid premium for land leases, the Group leased certain of its land and buildings and office premises under operating lease arrangements. Leases for land and buildings and office premises were for terms ranging from 10 to 30 years.

The total future minimum lease payments under non-cancellable operating leases, which the Group was a lessee are as follows:

#### *As lessee*

	2018 RMB'000
Within one year	4,679
In the second to fifth years	23,909
After the fifth year	18,795
	<u>47,383</u>

### (b) Capital commitments

Capital commitments not provided for in the financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Contracted but not provided for in respect of: Purchase of property, plant, equipment	<u>34,447</u>	15,269



# Notes to the Financial Statements

31 December 2019

## 41. DISPOSAL OF SUBSIDIARIES

- (a) On 8 November 2019, the Group had entered into the equity transfer agreement with an independent third party, to dispose of all the equity interest of Modern Agricultural, a wholly-owned subsidiary of the Company, and all the inter-company loans owned by Modern Agricultural at an aggregate cash consideration of RMB3,950,000.

Having satisfied all the terms and conditions of the equity transfer agreements, on 28 November 2019 the Group ceased control of Modern Agricultural and the disposal was then completed thereafter. The details of calculation of gain on disposal of Modern Agricultural is as follows:

	RMB'000
<b>Assets/(Liabilities) disposed of:</b>	
Property, plant and equipment	2,350
Deferred tax assets	5
Goodwill	423
Biological assets	26
Inventories	1,893
Trade receivables	1,152
Prepayments, other receivables and deposits	240
Cash and cash equivalents	46
Trade payables	(208)
Inter-company loans	(3,999)
Accrued liabilities and other payables	(4,787)
Deferred government grants	(160)
Tax payables	(46)
	<hr/>
<b>Net liabilities disposal of</b>	(3,065)
Disposal of inter-company loans	3,999
Gain on disposal of a subsidiary	3,016
	<hr/>
	3,950
	<hr/>
Consideration satisfied by:	
Other receivables	3,950
	<hr/>
Cash consideration received	-
Cash and cash equivalent disposed of	(46)
	<hr/>
Net outflow of cash and cash equivalents in respect of the disposal	(46)
	<hr/>



# Notes to the Financial Statements

31 December 2019

## 41. DISPOSAL OF SUBSIDIARIES (CONTINUED)

- (b) On 29 January 2018, the Group had entered into the equity transfer agreement with an independent third party, to dispose of all the equity interest of Jilin Kangda Foods Co., Ltd, a wholly-owned subsidiary of the Company, and all the inter-company loans owned by Jilin Kangda Foods Co., Ltd at an aggregate cash consideration of RMB38.0 million.

Having satisfied all the terms and conditions of the equity transfer agreements, on 28 March 2018 the Group ceased control of Jilin Kangda Foods Co., Ltd and the disposal was then completed thereafter. The details of calculation of gain on disposal on Jilin Kangda Foods Co., Ltd is as follows:

	RMB'000
<b>Assets/(Liabilities) disposed of:</b>	
Property, plant and equipment	10,755
Prepaid premium for land leases	6,738
Deferred tax assets	39
Biological assets	14,830
Deposits for property, plant and equipment	7,028
Inventories	10,538
Trade receivables	2,366
Prepayments, other receivables and deposits	11,970
Cash and cash equivalents	1,935
Trade payables	(17,523)
Inter-company loans	(96,031)
Accrued liabilities and other payables	(7,130)
Deferred government grants	(158)
Non-controlling interests	(5,158)
<b>Net liabilities</b>	<b>(59,801)</b>
Disposal of inter-company loans	96,031
Gain on disposal of subsidiaries	1,770
	<b>38,000</b>
Consideration satisfied by:	
Cash	38,000
Cash consideration received	38,000
Cash and cash equivalent disposed of	(1,935)
Net inflow of cash and cash equivalents in respect of the disposal	<b>36,065</b>



# Notes to the Financial Statements

31 December 2019

## 41. DISPOSAL OF SUBSIDIARIES (CONTINUED)

- (c) On 29 January 2018, the Group had entered into the equity transfer agreement with an independent third party, to dispose all the equity interest of Laiwu Kangda Feeds Co., Ltd, wholly-owned subsidiary of the Company, and all the inter-company loans owned by Laiwu Kangda Feeds Co., Ltd at an aggregate cash consideration of RMB3.0 million.

Having satisfied all the terms and conditions of the equity transfer agreements, on 2 May 2018 the Group ceased control of Laiwu Kangda Feeds Co., Ltd and the disposal was completed. The details of calculation of gain on disposal on Laiwu Kangda Feeds Co., Ltd is as follows:

	RMB'000
<b>Assets/(Liabilities) disposed of:</b>	
Property, plant and equipment	900
Inventories	4,728
Trade receivables	221
Prepayments, other receivables and deposits	4,400
Inter-company loans	3,467
Cash and cash equivalents	819
Trade payables	(10,657)
Accrued liabilities and other payables	(772)
Tax payables	(36)
	<hr/>
<b>Net assets</b>	3,070
Disposal of inter-company loans	(3,467)
Gain on disposal of a subsidiary	3,397
	<hr/>
	3,000
	<hr/>
Consideration satisfied by:	
Cash	3,000
	<hr/>
Cash consideration received	3,000
Cash and cash equivalent disposed of	(819)
	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal	2,181
	<hr/>

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations. The financial risks included market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The board of Directors of the Company meets periodically to analyse and formulate measures to manage the Group's exposure to the financial risk, including principally changes in interest rates and currency exchange rates.

Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.



# Notes to the Financial Statements

31 December 2019

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### (a) Categories of financial assets and liabilities

The categories of financial assets and financial liabilities included in the consolidated statement of financial position and the headings in which they are included are as follows:

	2019 RMB'000	2018 RMB'000
<b>Financial assets</b>		
Fair value through other comprehensive income		
– Bills receivables	11,459	22,248
At amortised cost		
– Trade receivables	103,138	100,459
– Other receivables and deposits	9,456	6,522
– Cash and bank balances (including pledged deposits)	215,347	587,967
	<b>339,400</b>	717,196
<b>Financial liabilities</b>		
At amortised cost		
– Trade and bills payables	205,545	507,156
– Accrued liabilities and other payables	132,407	112,702
– Interest-bearing bank borrowings	334,000	384,000
– Loan from immediate holding company	26,848	–
– Other borrowings	22,145	39,151
– Amount due to a related party	10,701	19,001
– Lease liabilities	55,238	–
	<b>786,884</b>	1,062,010

### (b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group borrows both loans issued at fixed and floating interest rates. Exposure to floating interest rate presents when there are unexpected adverse interest rate movements. The Group's policy is to manage its interest rate risk, working within an agreed framework, to ensure that there are no unduly exposures to significant interest rate movements and rates are approximately fixed when necessary. The policies to manage interest rate risk have been followed by the Group since prior years.



# Notes to the Financial Statements

31 December 2019

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### (b) Interest rate risk (Continued)

#### (i) Interest rate profile

The following tables detail the interest rate profile of the Group's financial instruments at the reporting date:

	Weighted average effective interest rate		Carrying amount	
	2019 %	2018 %	2019 RMB'000	2018 RMB'000
<b>Variable rate instruments</b>				
<i>Financial assets</i>				
Bank balances	<b>0.30%</b>	0.34%	<b>129,467</b>	270,822
<i>Financial liabilities</i>				
Interest-bearing bank borrowings	<b>5.42%</b>	5.10%	<b>155,000</b>	300,000
<b>Fixed rate instruments</b>				
<i>Financial assets</i>				
Time deposits	<b>1.12%</b>	1.34%	<b>85,880</b>	317,145
<i>Financial liabilities</i>				
Interest-bearing bank borrowings and other borrowings	<b>4.99%</b>	5.28%	<b>201,145</b>	123,151

#### (ii) Interest rate sensitivity analysis

The following tables illustrate the sensitivity of the profit for the year and equity to a reasonably possible change in interest rates of +0.5% and -0.5% (2018: +0.5% and -0.5%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments, which are subject to variable rate, held at each reporting date. All other variables are held constant. There is no impact on other components of consolidated equity in response to the possible change in interest rates.

	2019 RMB'000		2018 RMB'000	
	+0.5%	-0.5%	+0.5%	-0.5%
Effect on profit for the year and retained profits	<b>(128)</b>	<b>128</b>	(146)	146





# Notes to the Financial Statements

31 December 2019

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### (c) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. As at 31 December 2019, the carrying amount of these financial assets as disclosed in note 42(a) best represent the maximum exposure to credit risk. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its business.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. The credit policy has been followed by the Group since prior years.

#### *Financial assets with credit risk exposure*

##### *Trade and bills receivables*

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2019 and 2018:

As at 31 December 2019	Expected loss rate (%)	Gross carrying amount (RMB'000)	Loss allowance (RMB'000)
Current (not past due)	1.21%	73,305	890
Not more than 3 months past due	1.91%	20,161	385
3 to 6 months past due	3.67%	245	9
6 to 12 months past due	10.17%	11,924	1,213
More than 12 months past due	100%	303	303
		105,938	2,800
As at 31 December 2018	Expected loss rate (%)	Gross carrying amount (RMB'000)	Loss allowance (RMB'000)
Current (not past due)	0.84%	89,736	755
Not more than 3 months past due	2.78%	10,950	304
3 to 6 months past due	8.65%	208	18
6 to 12 months past due	8.29%	700	58
More than 12 months past due	100%	568	568
		102,162	1,703



# Notes to the Financial Statements

31 December 2019

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### (c) Credit risk (Continued)

#### *Financial assets with credit risk exposure (Continued)*

##### *Trade and bills receivables (Continued)*

Expected loss rates are based on actual loss experience over the past few years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

In respect of debts instruments measured at fair value through other comprehensive income (i.e. bills receivables), an expected credit loss on bills receivables amounting to RMB141,000 (2018: RMB302,000) as at 31 December 2019 is based on the 12-months ECLs given there is no significant increase in credit risk.

The movement in the provision for impairment of trade and bills receivables is as follows:

	2019 RMB'000	2018 RMB'000
Balance at the beginning of the year	2,005	1,635
Impairment losses recognised	1,505	370
Written off	(569)	–
Balance at the end of the year	<u>2,941</u>	<u>2,005</u>

None of the Group's financial assets are secured by collateral or other credit enhancements.

##### *Other financial assets measured at amortised cost*

Other financial assets measured at amortised cost of the Group include other receivables, pledged deposits and cash and cash equivalents. In respect of all the pledged deposits and cash and cash equivalents, since there is no significant increase in credit risk, any loss allowance recognised during the year is therefore limited to 12-month ECLs. The directors consider the probability of default is low on these balances since the counterparties are financial institutions with high credit rating or with good reputation.

In respect of other receivables of RMB9,567,000 (2018: RMB7,082,000), the ECLs are based on the 12-month ECLs as there is no significant increase in credit risk and a loss allowance of RMB111,000 (2018: RMB560,000) is recognised as at 31 December 2019. In respect of other receivables of RMB2,588,000 (2018: RMB2,588,000) representing an advance payment to an associate, this balance is credit impaired of which a loss allowance of RMB2,588,000 (2018: RMB2,588,000) is recognised as at 31 December 2019.

Expected loss rates on other receivables are based on actual loss experience over the past few years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of other receivables measured at amortised costs, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics except for a credit impaired receivable from an associate of RMB2,588,000 (2018:RMB3,148,000) as at 31 December 2019.



# Notes to the Financial Statements

31 December 2019

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### (d) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the Group entities to which they relate. The currencies giving rise to this risk are mainly Euro, United States dollars ("USD"), Japanese Yen ("JPY"), Singapore dollar ("SGD") and Hong Kong dollar ("HK\$").

The Group reviews its foreign currency exposures regularly and does not consider its foreign exchange risk to be significant. The policy to manage foreign currency risk has been followed by the Group since prior years.

### (i) Foreign currency risk exposure

The following tables detail the Group's exposures at the reporting date to foreign currency risk from the financial assets and financial liabilities denominated in a currency other than the functional currency to which the Group entities relate:

	USD RMB'000	EURO RMB'000	2019 JPY RMB'000	SGD RMB'000	HK\$ RMB'000
<i>Financial assets</i>					
Trade receivables	52	4	-	-	-
Cash and bank balances	12,817	-	14,060	5	2,996
	<b>12,869</b>	<b>4</b>	<b>14,060</b>	<b>5</b>	<b>2,996</b>
<i>Financial liabilities</i>					
Other borrowing	-	-	-	-	22,145
	USD RMB'000	EURO RMB'000	2018 JPY RMB'000	SGD RMB'000	HK\$ RMB'000
<i>Financial assets</i>					
Trade receivables	51,335	9,014	2,715	-	-
Cash and bank balances	2,600	1,584	-	-	102
	<b>53,935</b>	<b>10,598</b>	<b>2,715</b>	<b>-</b>	<b>102</b>
<i>Financial liabilities</i>					
Other borrowing	-	-	-	-	19,151

Apart from the above, all the Group's financial assets and liabilities are denominated in RMB.



# Notes to the Financial Statements

31 December 2019

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### (d) Foreign currency risk (Continued)

#### (ii) Foreign currency sensitivity analysis

The following table indicates the approximate change in the Group's profit for the year and equity in response to a 5% appreciation in the respective foreign currencies against the Group's functional currencies against the respective foreign currencies. There is no impact on other components of consolidated equity in response to the general increase in the following foreign currency rates.

	USD	EURO	2019	SGD	HK\$
	RMB'000	RMB'000	JPY RMB'000	RMB'000	RMB'000
Effect on profit for the year and retained profits	643	–	703	–	(957)
	USD	EURO	2018	SGD	HK\$
	RMB'000	RMB'000	JPY RMB'000	RMB'000	RMB'000
Effect on profit for the year and retained profits	2,697	530	135	–	(952)

A weakening of the above foreign currencies against RMB at each reporting date would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

### (e) Business risk

The Group is exposed to the following risks relating to its agricultural activities.

#### (i) Regulatory and environmental risks

The Group is subject to laws and regulations in the PRC which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws.

#### (ii) Supply and demand risk

The Group is exposed to financial risks arising from changes in prices of livestock and livestock environmental policies and procedures aimed at compliance with local environmental of which are determined by constantly changing market forces of supply and demand, and other factors. When possible, the Group manages these risks by aligning its production volume to market supply and demand and the Group also manages its exposure to fluctuation in the price of the key raw materials used in operations by maintaining a large number of suppliers so as to limit high concentration in a particular supplier.

#### (iii) Other risk

The Group is subject to risks relating to its ability to maintain health status. Livestock health problems could adversely impact production and consumer confidence. The Group monitors the health of its livestock on a regular basis and has procedures in place to reduce potential exposure to infectious diseases.



# Notes to the Financial Statements

31 December 2019

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### (f) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or financial asset. The Group are exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management.

As disclosed in note 3(b) to the financial statements as at 31 December 2019, the Group's current liabilities has exceeded its current assets by RMB213.9 million as at 31 December 2019. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its obligations as they fall due, and on its ability to obtain external financing. Further details are set out in note 3(b) to the financial statements. Subsequent to the end of the reporting period, the Group also obtained written confirmation from several Group's major bankers, which confirmed to renew certain bank borrowings, in aggregate of up to RMB334.0 million, to the Group for another year upon the maturity of the bank borrowings. Moreover, subsequent to year end date, the immediate holding company of the Company confirmed to renew the loan to the Group of RMB26.8 million for another year upon maturity in 2020 and provided an additional loan to the Group of RMB8.9 million for a period of one year from February 2020. The Directors of the Company have also carried out a detailed review of the cash flow projection of the Group for the next 12 months from the reporting date. The Directors are of the opinion that the assumptions which are included in the cash flow projection are reasonable. Based on above, the Directors have determined that adequate liquidity exists to finance its working capital and financing activities of the Group for that period.

The cash flow management of all operating entities is centralised, including the raising of funds to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The maturity analysis for bank borrowings is prepared based on the scheduled repayment dates.

	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
Repayable within one year	<b>334,000</b>	384,000

The liquidity policy has been followed by the Group since prior years.



# Notes to the Financial Statements

31 December 2019

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### (f) Liquidity risk (Continued)

As at 31 December 2019 and 2018, the maturity analysis of the Group's financial assets, based on the contracted undiscounted maturity, and the maturity profile of the Group's financial liabilities, based on the contracted undiscounted payments, are summarised below:

	2019			2018		
	Within 6 months or on demand RMB'000	6 to 12 months RMB'000	After 1 year RMB'000	Within 6 months or on demand RMB'000	6 to 12 months RMB'000	After 1 year RMB'000
<b>Non-derivative financial assets:</b>						
Trade and bills receivables	114,597	-	-	122,707	-	-
Other receivables and deposits	9,456	-	-	6,522	-	-
Cash and bank balances (including pledged deposits)	215,347	-	-	587,967	-	-
	<b>339,400</b>	<b>-</b>	<b>-</b>	<b>717,196</b>	<b>-</b>	<b>-</b>
<b>Non-derivative financial liabilities:</b>						
Trade and bills payables	205,545	-	-	507,156	-	-
Accrued liabilities and other payables	132,407	-	-	112,702	-	-
Amount due to a related party	10,701	-	-	19,001	-	-
Interest-bearing bank borrowings	49,994	295,546	-	60,616	336,229	-
Loan from immediate holding company	26,848	-	-	-	-	-
Lease liabilities	11,300	33,067	41,926	-	-	-
Other borrowings	22,145	-	-	22,727	18,164	279
	<b>458,940</b>	<b>328,613</b>	<b>41,926</b>	<b>722,202</b>	<b>354,393</b>	<b>279</b>

### (g) Fair value

The fair value measurement of the Group's financial assets utilised market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable inputs used in the valuation technique utilised are:

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.



# Notes to the Financial Statements

31 December 2019

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### (g) Fair value (Continued)

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>31 December 2019</b>				
Financial asset at fair value through other comprehensive income:				
– Bills receivables (note 23)	–	11,600	–	11,600
<b>31 December 2018</b>				
Financial asset at fair value through other comprehensive income:				
– Bills receivables (note 23)	–	22,550	–	22,550

Note: Due to short-term nature of the bill receivables, their carrying amounts are considered approximate to their fair value.

## 43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

	Amount due to a related party RMB'000	Interest bearing bank borrowings RMB'000	Other borrowings RMB'000	Loan from immediate holding company RMB'000	Lease liabilities RMB'000
<b>At 1 January 2018</b>	38,269	545,319	11,760	–	–
Changes from cash flows:					
Repayment to a related party	(19,268)	–	–	–	–
New bank borrowings	–	484,000	–	–	–
Repayment of bank borrowings	–	(645,319)	–	–	–
New other borrowings	–	–	26,787	–	–
	(19,268)	(161,319)	26,787	–	–
Exchange adjustments:	–	–	604	–	–
<b>Other changes:</b>					
Interest expenses	–	25,120	503	–	–
Interest paid	–	(25,120)	(503)	–	–
Total other changes	–	–	–	–	–
<b>At 31 December 2018, as originally presented</b>	19,001	384,000	39,151	–	–
Initial application of IFRS 16 (note 2(a))	–	–	–	–	36,479



# Notes to the Financial Statements

31 December 2019

## 43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONTINUED)

	Amount due to a related party RMB'000	Interest bearing bank borrowings RMB'000	Other borrowings RMB'000	Loan from immediate holding company RMB'000	Lease liabilities RMB'000
<b>At 1 January 2019, as restated</b>	19,001	384,000	39,151	–	36,479
Changes from cash flows:					
Received from a related party	(8,300)	–	–	–	–
New bank borrowings	–	334,000	–	–	–
Repayment of bank borrowings	–	(384,000)	–	–	–
Repayment of other borrowings	–	–	(18,254)	–	–
Loan from immediate holding company	–	–	–	26,848	–
Repayment of principal amount of lease liabilities	–	–	–	–	(8,829)
	(8,300)	(50,000)	(18,254)	26,848	(8,829)
<b>Non-cash transaction:</b>					
Addition of new lease	–	–	–	–	24,180
Exchange difference	–	–	1,248	–	–
Interest expenses on lease liabilities	–	–	–	–	3,408
	–	–	1,248	–	27,588
<b>Other changes:</b>					
Interest expenses	–	22,428	–	–	–
Interest paid	–	(22,428)	–	–	–
Total other changes	–	–	–	–	–
<b>At 31 December 2019</b>	10,701	334,000	22,145	26,848	55,238





# Notes to the Financial Statements

31 December 2019

## 44. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current and previous years.

The Group monitors capital using a gearing ratio, which is total debts divided by total capital. Total debts are calculated as the sum of bank and other borrowings and amount due to a related party as shown in the consolidated statement of financial position. Total capital is calculated as total equity attributable to the Company's owners, as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level.

	2019 RMB'000	2018 RMB'000
Interest-bearing bank borrowings	334,000	384,000
Other borrowings	22,145	39,151
Loan from immediate holding company	26,848	–
Lease liabilities	55,238	–
Amount due to a related party	10,701	19,001
<b>Total debts</b>	<b>448,932</b>	<b>442,152</b>
<b>Equity attributable to the Company's owners</b>	<b>643,654</b>	<b>639,071</b>
<b>Total debts to equity ratio</b>	<b>70%</b>	<b>69%</b>

Subsidiaries of the Group established in the PRC are required to contribute and maintain a non-distributable statutory reserve fund whose utilisation is subject to certain restrictions as set out in the relevant regulations in the PRC. Certain of the Group's bank borrowings are subject to the fulfillment of covenants relating to certain of its subsidiaries' financial ratios. The Group regularly monitors its compliance with these covenants. These externally imposed capital requirements have been complied with by the Group for the years ended 31 December 2019 and 2018.



# Notes to the Financial Statements

31 December 2019

## 45. SIGNIFICANT RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

	Notes	2019 RMB'000	2018 RMB'000
Sales to related parties	(i)	4,650	2,174
Rental expenses paid to related parties	(ii)	1,070	480
Guarantees given by the related parties in connection with bank loans granted to the Group	(iii)	620,000	580,000
Sales to associates	(iv)	–	627
Testing fee paid to an associate	(v)	1,172	1,888

### (b) Key management personnel compensation

Short term employee benefits of Directors and other members of key management		11,772	12,878
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Notes:

- (i) Sales to related parties were made to related parties of which Mr. Gao Sishi, as a director of a major subsidiary of the Company, has beneficial interest. These sales were made in the ordinary course of business with reference to the terms negotiated between the Group and these related parties.
- (ii) Rental expenses paid to related parties, of which Mr. Gao Sishi, as a director of a major subsidiary of the Company having beneficial interest, were made according to the terms of the lease agreements.
- (iii) The Group's bank borrowings (note 30) were guaranteed by the related parties, of which Mr. Gao Sishi, as a director of a major subsidiary of the Company, having beneficial interest.
- (iv) Sales and purchase from associates were made in the ordinary course of business with reference to the terms negotiated between the Group and the associates.
- (v) Testing fee paid to an associate was made in ordinary course of business with reference to the terms negotiated between the Group and the associate.

## 46. EVENT AFTER THE REPORTING DATE

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, it has certain impacts on the Group's business operation and overall global economy. According to the preliminary assessment, it is expected that the financial performance in the first quarter of 2020 will be affected to some extent. Subject to the development and spread of COVID-19 subsequent to the date of the financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. It is not practicable to estimate the full financial effect of the coronavirus outbreak may have on the Group's business as at the date when the financial statements are authorised to issue.

## 47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2020.

