



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

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



PUTIAN



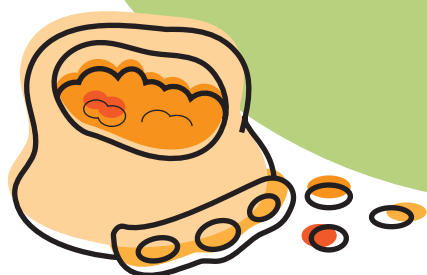
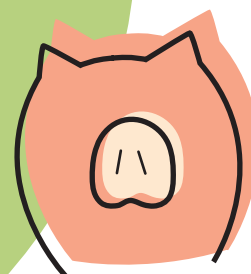
2020

INTERIM REPORT
中期報告



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

領先的垂直一體化豬肉供應商
LEADING VERTICALLY INTEGRATED
PORK PRODUCTS SUPPLIER





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Corporate Information

Directors

Executive Directors

Mr. Cai Chenyang (*Chairman and Chief Executive Officer*)

Mr. Cai Haifang

Ms. Ma Yilin

Non-Executive Directors

Mr. Cheng Lian

Mr. Cai Zhiwei

Independent Non-Executive Directors

Mr. Xue Chaochao

Mr. Cai Zirong

Mr. Wang Aiguo

Audit Committee

Mr. Xue Chaochao (*Committee Chairman*)

Mr. Cai Zirong

Mr. Wang Aiguo

Remuneration Committee

Mr. Cai Zirong (*Committee Chairman*)

Mr. Xue Chaochao

Mr. Wang Aiguo

Nomination Committee

Mr. Wang Aiguo (*Committee Chairman*)

Mr. Xue Chaochao

Mr. Cai Zirong

Company Secretary

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

Legal Advisor

Ince & Co

4404-10, 44/F

One Island East

18 Westlands Road, Taikoo Place

Hong Kong

Auditors

HLB Hodgson Impney Cheng Limited

Certified Public Accountants

31/F, Gloucester Tower

The Landmark

11 Pedder Street, Central

Hong Kong

Principal Banker

Bank of China

No. 156, Dongda Road

Chengxiang District

Putian City

Fujian Province, the PRC

Registered Office

Cricket Square, Hutchins Drive

PO Box 2681

Grand Cayman, KY1-1111

Cayman Islands

Principal Place of Business in Hong Kong

No. 3312, 33rd Floor, West Tower

Shun Tak Centre

No. 168-200 Connaught Road Central

Hong Kong

Head Office and Principal Place of Business in the PRC

Hualin Road, Hualin Industrial Zone

Chengxiang District

Putian City, Fujian Province

the PRC

Cayman Islands Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited

Cricket Square, Hutchins Drive

PO Box 2681

Grand Cayman, KY1-1111

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

Company Website

www.putian.com.hk

Stock Code

1699





Management Discussion & Analysis

Business Review

In the first half of 2020, although the overall economy was affected by the Coronavirus Disease 2019 (“COVID-19”), China’s pork demand remained stable. The supply chain and logistics, however, were severely impacted by the pandemic, which led to a short supply and rising price of pork. The African swine fever in 2018, though being under control for a long time, has had a continuous effect on the hog industry. Since the outbreak, the breeding industry has experienced a reshuffle where the strong would survive and the weak would fail. Until the first half of 2020, the fast-concentrated industry has presented a good opportunity for the consolidation of large-scale and well-known enterprises. Meanwhile, as the demand of customers for branded and safe pork has been increasing in recent years, the high-end pork products has gained wider recognition in the market, which has further expanded the market share of domestic black hogs.

During the Reviewed Period, the Group recorded a revenue of approximately RMB323,530,000, representing a decrease of approximately 3.2% as compared with the six months ended 30 June 2019 (“Corresponding Period”); the overall gross profit of the Group was approximately RMB50,638,000, representing an increase of approximately 4.1% as compared with the Corresponding Period; the net profit for the Reviewed Period was approximately RMB8,826,000 representing a decrease of approximately RMB28,594,000 as compared with the Corresponding Period. The decrease in revenue was mainly due to the current status of the hog industry, i.e. a decrease in hog stocks. The Group provided an opportunity for the consolidation of large-scale breeding enterprises and recorded a substantial increase in its pork retail business. Meanwhile, as a result of its strong efforts to develop wholesale commodity hogs, the Group’s revenue maintained the same level as the Corresponding Period.

“Putian Black Pearl”, the Group’s black pork brand, has continued to develop as planned in a stable manner. Its black hog farm in Xuanhua, Hebei has maintained stable operation and production condition with gradually rising capacity and utilization rate. During the Review Period, approximately 2,724 black hogs were slaughtered, slightly less than the Corresponding Period of 3,789 and currently with a capacity utilisation rate of 31%. During the Review Period, approximately 8,075 black hogs were slaughtered in Shiti (石梯) and Xianglixiang (鄉里香) farms in Putian, Fujian, currently with a capacity utilisation rate of 53%. Currently, the lower capacity utilisation rate is mainly due to the fact that it takes a long period from farrow to finish process. The Group is working hard to gradually improve the capacity utilisation rate in the Hebei base.

During the Reviewed Period, the Company achieved satisfactory sales performance by adopting a policy to stably improve the existing distribution channels, while expanding the wholesale channels in light of the market conditions. During the COVID-19 pandemic, the Group fortified its prevention measures and adopted flexible marketing channels, including expanding sales through e-commerce, community stores and door-to-door delivery package. As a result, the COVID-19 pandemic has had little impact on the business of the Group. During the Review Period, sales of the Group’s “Putian Black Pearl” covered Fujian, Beijing and Hong Kong, accounting for approximately 26.9% of the Group’s total revenue. Sales in Fujian Province and Beijing were particularly outstanding.





Management Discussion & Analysis (Continued)

Financial Review

1. Revenue

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

	Six months ended 30 June			
	2020		2019	
	RMB'000 (unaudited)	Percentage of total revenue (%)	RMB'000 (unaudited)	Percentage of total revenue (%)
Revenue				
Retail of pork	203,627	62.9	172,977	51.8
Wholesale of pork	103,509	32.0	144,737	43.3
Retail of frozen pork	12,999	4.0	10,979	3.3
Wholesale of commodity hogs	3,395	1.1	5,404	1.6
	323,530	100.0	334,097	100.0

The total unaudited revenue of the Group decreased from approximately RMB334,097,000 for the Corresponding Period to approximately RMB323,530,000 for the Reviewed Period, resulting in a decrease in total revenue of approximately 3.2% as compared with the Corresponding Period, which was mainly attributable to the fact that the sales quantities decreased in the Reviewed Period, which compared with the Corresponding Period. However, due to the adjustment of marketing strategy in a timely manner against the backdrop of the hog industry in the first half of the year, each of the Group's pork retail and frozen pork retail business recorded an increase, particularly a significant increase in the pork retail business in the Reviewed Period.

Revenue from Retail of Pork

The Group's unaudited revenue from the retail of pork increased from approximately RMB172,977,000 for the Corresponding Period to approximately RMB203,627,000 for the Reviewed Period, representing an increase of approximately 17.7%. It was attributable to the domestic consumption environment and the overall performance of the pork retail market in the first half of the year, coupled with the Group's strategy to continuously promote the development of its high-end pork business. The Group continues to develop distribution networks to expand market shares. During the Review Period, the Group added 4 retail points in supermarkets to its portfolio, including two in Beijing (Wu Mart (物美超市) and Kuan Guang Supermarket (寬廣超市)) and two in Fujian (Dong Sheng Lian Yi Supermarket (東盛聯億超市) and Yue Lai Yue Hao Supermarket (悅來悅好超市)). Furthermore, the Group has also been developing its online retail business to strengthen its distribution networks as scheduled. During the Review Period, all e-commerce channels worked well. Through continuous online advertising campaigns and increasing recommendations from customers, the brand image of "Putian" has gained wider recognition in the market. The Group will continue to develop its high-end pork business, further explore the potential of the black pork market and expand its product portfolio and distribution channels to satisfy the demand of consumers for high-quality products. The management is confident to seek further growth of revenue from its retail business.





Management Discussion & Analysis (Continued)

Revenue from Wholesale of Pork

The Group's unaudited revenue from the wholesale of pork decreased from approximately RMB144,737,000 for the Corresponding Period to approximately RMB103,509,000 for the Reviewed Period, representing a decrease of approximately 28.5%, which was primarily due to the fact that the Group had made an adjustment in the selling price and sales quantities to marketing strategies in light of the price of hogs in the prevailing market for the Reviewed Period.

Revenue from Retail of Frozen Pork

The Group's unaudited revenue from the retail of frozen pork increased from approximately RMB10,979,000 for the Corresponding Period to approximately RMB12,999,000 for the Reviewed Period, representing an increase of approximately 18.4%, which was mainly attributable to the fact that the Group had made adjustments to the marketing strategies in light of the price of hogs in prevailing market for the Reviewed Period.

Revenue from Wholesale of Commodity Hogs

The Group's unaudited revenue from the wholesale of commodity hogs decreased from approximately RMB5,404,000 for the Corresponding Period to approximately RMB3,395,000 for the Reviewed Period, representing a decrease of approximately 37.2%, and accounting for approximately 1.1% of the total revenue for the Reviewed Period. Such decrease was mainly attributable to the Group having made an adjustment in the selling price and sales quantities to marketing strategies in light of the price of hogs in the prevailing market for the Reviewed Period.

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

2. Gross Profit and Gross Profit Margin

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

	Six months ended 30 June			
	2020		2019	
	RMB'000 (unaudited)	Gross profit margin (%)	RMB'000 (unaudited)	Gross profit margin (%)
Gross profit and gross profit margin				
Retail of pork	33,601	16.5	27,544	15.9
Wholesale of pork	15,234	14.7	18,367	12.7
Retail of frozen pork	1,336	10.3	1,276	11.6
Wholesale of commodity hogs	467	13.8	1,450	26.8
	50,638	15.7	48,637	14.6



Management Discussion & Analysis (Continued)

The overall unaudited gross profit of the Group increased from approximately RMB48,637,000 for the Corresponding Period to approximately RMB50,638,000 for the Reviewed Period. The overall gross profit margin of the Group increased from 14.6% for the Corresponding Period to approximately 15.7% for the Reviewed Period. The increase in gross profit margin was attributable to the decrease in stocks of the hog industry, which gave the Group an opportunity of business consolidation, and the Group's strong efforts to develop retail business and achieve good performance, including a significant increase in the retail of pork.

Gross Profit and Gross Profit Margin for the Retail of Pork

The gross profit from the retail of pork increased from approximately RMB27,544,000 for the Corresponding Period to approximately RMB33,601,000 for the Reviewed Period. The gross profit margin for the retail of pork raised from approximately 15.9% for the Corresponding Period to approximately 16.5% for the Reviewed Period. For the Reviewed Period, the gross profit and gross profit margin for this segment raised due to the domestic consumption environment and the overall performance of pork retail market in the first half of the year, coupled with the Group's strategy to continuously promote the development of its high-end pork business.

Gross Profit and Gross Profit Margin for the Wholesale of Pork

The gross profit from the wholesale of pork decreased from approximately RMB18,367,000 for the Corresponding Period to approximately RMB15,234,000 for the Reviewed Period. The gross profit margin for the wholesale of pork increased from approximately 12.7% for the Corresponding Period to approximately 14.7% for the Reviewed Period. The increase in gross profit margin was attributable to the Group having made an adjustment in the selling price and sales quantities to marketing strategies in light of the price of hogs in the prevailing market for the Reviewed Period.

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

The gross profit from the retail of frozen pork increased from approximately RMB1,276,000 for the Corresponding Period to approximately RMB1,336,000 for the Reviewed Period. The gross profit margin for the retail of frozen pork decreased from approximately 11.6% for the Corresponding Period to approximately 10.3% for the Reviewed Period. The increase in gross profit for this segment was mainly due to the fact that the Group had made adjustment to marketing strategies in light of the price of hogs in prevailing market for the Reviewed Period.

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

The gross profit from the wholesale of commodity hogs decreased from approximately RMB1,450,000 for the Corresponding Period to approximately RMB467,000 for the Reviewed Period. The gross profit margin for the wholesale of commodity hogs decreased from approximately 26.8% for the Corresponding Period to approximately 13.8% for the Reviewed Period. The decrease in gross profit margin for the wholesale of commodity hogs was mainly due to the Group having made an adjustment in the selling price and sales quantities to marketing strategies in light of the price of hogs in the prevailing market for the Reviewed Period.

3. Profit for the six months ended 30 June 2020

The gross profit for the Reviewed Period was approximately RMB50,638,000 (for the Corresponding Period, it was approximately RMB48,637,000), representing an increase of approximately RMB2,001,000, the increase was mainly due to the increase of the selling price of our product sales.





Management Discussion & Analysis (Continued)

The net profit for the Reviewed Period was approximately RMB8,826,000 (for the Corresponding Period, it was approximately RMB37,420,000) representing a decrease of approximately RMB28,594,000 as compared with the Corresponding Period. This was mainly due to (i) a decrease in the gain arising from change in fair value less costs to sell of biological assets to approximately RMB4,607,000 for the Reviewed Period, as compared with a gain of approximately RMB20,082,000 for the Corresponding Period (mainly attributable to the increase in the market price of hogs in the PRC during the Reviewed Period); (ii) no gain arising from change in fair value change of derivative financial liabilities for the Reviewed Period, as compared with a gain of approximately RMB8,202,000 for the Corresponding Period; (iii) an increase in the selling and distribution expenses from approximately RMB13,608,000 for the Corresponding Period to approximately RMB17,059,000 for the Reviewed Period; and (iv) an increase in the administrative expenses from approximately RMB19,678,000 for the Corresponding Period to approximately RMB21,944,000 for the Reviewed Period.

Prospectus

1. Expanding distribution networks in light of changes in national consumption structure

The outbreak of COVID-19 in early 2020 impacted the global economy, and China, whose economy recovered quickly, wasn't spared. However, the price of pork, as a consumer staple, recorded historic highs from time to time during the pandemic. With gradually-deepened recognition in the market for high-end pork products, the demand of consumers for branded and safe pork has increased, and is expected to be the major targeted market in the future. The black pork products will also embrace a promising prospect. Even though the economic environment is filled with uncertainties, the Group is confident in the domestic pork market condition in the second half of the year. In the future, the Group will continue to develop "Putian Black Pearl" as a high-end brand and expand its distribution networks. In the second half of the year, the Group intends to open approximately 18 new retail points, including 3 in Hualian Supermarket, 5 in Wal-Mart, 5 in Carrefour and 5 in Wu Mart in Beijing.

2. Further expanding retail channels and developing established online sales

The e-commerce market in China is developing rapidly and is leading the world. This is particularly so during the COVID-19 pandemic, when consumers were buying online more than ever. Given the increasing size of online retail business, the Group is optimistic about the potential of new retail development. Considering the future business trend, the Group expects e-commerce to become one of the major distribution channels for black pork. In the past, the Group has established its WeChat-based platform and collaborated with well-known e-commerce suppliers to expand distribution networks and provided delivery service in a limited number of areas. In respect of retail business, the Group will step up its marketing efforts via e-commerce, community stores and door-to-door delivery package in the second half of the year. It will promote e-commerce through new medias to increase the visiting rate of its online platform, improve brand awareness and allow more consumers to know and recognize our "Putian Black Pearl" brand. In the meantime, capitalizing on big data and other statistical models, the Group will optimize its retail strategy and, depending on different market demands, bring premium pork materials to consumers in more regions.





Management Discussion & Analysis (Continued)

3. Improving capacity utilisation rate to adapt to hog market condition

The African swine fever, though already under control for a long time, has had a lingering effect on the market, as reflected by the fast-concentrated pork industry in China, which presents a business opportunity to enterprises with large scale and high brand awareness. In the first half of the year, the Group adjusted its business strategy to focus on the development of pork retail and commodity pork wholesale business and expanded its distribution channels, which enabled the Group to maintain a stable demand against the backdrop of the COVID-19 pandemic, indicating that the current hog market still has great potentials for development. By now, the capacity of the Group's Xuanhua hog farm in Hebei, and Shiti and Xianglixiang farms in Putian have progressed well. In the second half of the year, the Group expects to expand the production lines of the Xuanhua farm in Hebei for higher hog slaughter capacity in order to increase the Group's supplies and achieve higher sales volume and hence better results.

Liquidity and Financial Resources

Financial Resources

The Group primarily finances the capital required for operations by internally generated cashflow and bank facilities. As at 30 June 2020, cash and bank balances amounted to approximately RMB18,578,000 (31 December 2019: approximately RMB8,841,000).

Borrowings and Pledged Assets

As at 30 June 2020, the total amount of interest-bearing bank borrowings was approximately RMB142,135,000, all of which would be due within one year (31 December 2019: bank borrowings was approximately RMB141,958,000). The total amount of interest-bearing bank borrowings and bank overdrafts were denominated in Renminbi and Hong Kong Dollar respectively, and on a floating interest rate.

As at 30 June 2020, the bank borrowings of approximately RMB139,135,000 (31 December 2019: RMB138,958,000) were pledged/charge over the Group's property, plant and equipment and right-of-use assets with a total carrying value of approximately RMB90,415,000 (31 December 2019: approximately RMB94,728,000) and were guaranteed by the Company and Mr. Cai Chenyang, a director of the Company, the chairman of the Board and a substantial shareholder of the Company.

Gearing Ratio

As at 30 June 2020, the gearing ratio of the Group was 61.4% (31 December 2019: 64.3%). This was calculated by dividing interest-bearing borrowings, amount due to a shareholder and lease liabilities with the total equity of the Group as at 30 June 2020.





Management Discussion & Analysis (Continued)

FOREIGN EXCHANGE RISK

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

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

EVENT AFTER REPORTING PERIOD

References are made to the announcements of the Company dated 2 July 2020 and 11 September 2020 (collectively, the "Announcements").

As disclosed in the Announcements, the Company received a winding-up petition (the "Petition") filed by Financial Asia Limited (the "Petitioner") for the winding up of the Company on the ground that the Company has failed to repay its debts. It was alleged in the Petition that the Company was indebted to the Petitioner in the sum of HK\$54,000 as at 11 February 2020, being the outstanding fees for the alleged service rendered by the Petitioner to the Company under a service agreement dated 30 May 2018. The Petitioner was a previous service provider of the Company.

On 9 September 2020, the Company filed an application with the High Court for the Striking out of the Petition (the "Application"). The hearing of the Application is fixed on 29 October 2020 whereas the call over hearing of the Petition is fixed on 30 September 2020 at 10:00 a.m.

According to Section 182 of the Companies Ordinance (Cap. 622, Laws of Hong Kong), the effect of the Petition, unless and until it is dismissed or a validation order is sought, is that any disposition of the property of the Company, including things in action, and any transfer of shares, or alteration in the status of the members of the Company, made after the commencement of the winding up, shall unless the court otherwise orders, be void.

The position of the Company towards the Petition is that the facts stated in the Petition are not true and the Company intends to strenuously defend against the Petition.

OPERATING LEASE COMMITMENTS

As at 30 June 2019, the Group had operating lease commitments of approximately RMB15,834,000.





Management Discussion & Analysis (Continued)

CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

CAPITAL COMMITMENTS

As at 30 June 2020, the Group had capital commitments of approximately RMB69,024,000 (31 December 2019: approximately RMB69,024,000), which mainly comprised of commitments for the construction in process in Hebei and Fujian.

HUMAN RESOURCES

As at 30 June 2020, the Group had 494 employees. Staff costs, including directors' emoluments, totalled approximately RMB9,496,000 (30 June 2019: approximately RMB11,748,000) during the Reviewed Period. All of the Group's companies are equal-opportunity employers, with the selection and promotion of individuals based on their suitability for the positions offered. The Group operates a defined contribution mandatory provident fund as retirement benefits for its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC.





Interim Financial Report

The board of Directors (the “Board”) of China Putian Food Holding Limited (the “Company”) is pleased to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2020 with comparative figures for the corresponding period in 2019. These condensed consolidated interim financial statements have not been audited but have been reviewed by the Audited Committee.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	4	323,530	334,097
Cost of sales		(272,892)	(285,460)
Gross profit		50,638	48,637
Other income and losses, net	5	4,315	5,456
Gain arising from change in fair value less costs to sell of biological assets	12	4,607	20,082
Selling and distribution expenses		(17,059)	(13,608)
Administrative expenses		(21,944)	(19,678)
Finance costs	6	(11,731)	(11,671)
Gain arising from fair value change of derivative financial liabilities		—	8,202
Profit before taxation		8,826	37,420
Taxation	7	—	—
Profit for the period	8	8,826	37,420
Other comprehensive income/(loss) for the period, net of income tax: <i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		(7,445)	(2,004)
Other comprehensive loss for the period, net of income tax		(7,445)	(2,004)
Total comprehensive income for the period		1,381	35,416
Profit for the period attributable to the owners of the Company		8,826	37,420
Total comprehensive income for the period attributable to the owners of the Company		1,381	35,416
Earnings per share			
Basic and diluted (RMB cents per share)	10	0.47	1.98





Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	551,311	563,128
Right-of-use assets		91,837	95,507
Biological assets	12	19,637	18,093
Deposits paid for property, plant and equipment		10,000	10,000
		672,785	686,728
Current assets			
Inventories		74,436	64,745
Biological assets	12	173,448	184,201
Trade receivables	13	131,044	135,221
Deposits paid, prepayments and other receivables	14	159,412	157,727
Pledged bank deposits		4,080	3,075
Cash and bank balances		18,578	8,841
		560,998	553,810
Current liabilities			
Trade and bills payables	15	20,173	22,774
Accruals, deposits received and other payables	16	33,608	29,156
Borrowings	18	387,197	401,424
Lease liabilities	19	13,746	14,332
Deferred revenue		77,394	65,003
		532,118	532,689
Net current assets		28,880	21,121
Total assets less current liabilities		701,665	707,849





Condensed Consolidated Statement of Financial Position (Continued)

As at 30 June 2020

	Notes	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Non-current liabilities			
Other payables	16	17,326	20,891
Lease liabilities	19	6,018	6,595
Amount due to a shareholder		5,253	8,548
Deferred revenue		2,046	2,174
		30,643	38,208
Net assets		671,022	669,641
Equity			
Share capital	17	77,894	77,894
Share premium and reserves		593,128	591,747
Total equity		671,022	669,641





Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Share capital	Share premium	Exchange reserve	Statutory reserve	Share options reserve	Other reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2019 (Audited)	77,894	40,982	(15,011)	74,181	25,026	53,015	362,653	618,740
Profit for the period	—	—	—	—	—	—	37,420	37,420
Other comprehensive loss for the period	—	—	(2,004)	—	—	—	—	(2,004)
Total comprehensive income for the period	—	—	(2,004)	—	—	—	37,420	35,416
Transfer to statutory reserve	—	—	—	1,749	—	—	(1,749)	—
As at 30 June 2019 (Unaudited)	77,894	40,982	(17,015)	75,930	25,026	53,015	398,324	654,156
As at 1 January 2020 (Audited)	77,894	40,982	(22,107)	77,593	24,603	53,015	417,661	669,641
Profit for the period	—	—	—	—	—	—	8,826	8,826
Other comprehensive loss for the period	—	—	(7,445)	—	—	—	—	(7,445)
Total comprehensive income for the period	—	—	(7,445)	—	—	—	8,826	1,381
As at 30 June 2020 (Unaudited)	77,894	40,982	(29,552)	77,593	24,603	53,015	426,487	671,022





Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Net cash generated from operating activities	42,713	9,635
Investing activities		
Interest received	21	29
Proceeds from disposal of property, plant and equipment	833	30
Purchase of property, plant and equipment	(3,610)	(3,363)
Net cash used in investing activities	(2,756)	(3,304)
Financing activities		
Interest paid	(5,711)	(5,521)
Proceeds from bank borrowings	121,772	140,500
Repayments of bank borrowings	(140,897)	(140,500)
Repayments of lease liabilities/finance lease payable	(858)	(5,714)
(Decrease)/increase in amount due to a shareholder	(3,505)	4,666
Decrease in pledged bank deposits	(1,005)	—
Net cash used in financing activities	(30,204)	(6,569)
Net increase/(decrease) in cash and cash equivalents	9,753	(238)
Cash and cash equivalents at beginning of the period	8,841	9,091
Effect of foreign exchange rate changes	(16)	(931)
Cash and cash equivalents at end of the period	18,578	7,922
Cash and cash equivalents at end of the period		
Cash and bank balances	18,578	7,922
	18,578	7,922





Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

1. Basis of Preparation

The condensed consolidated interim financial information for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). They have been prepared under the historical cost convention, except for financial assets and financial liabilities, which are carried at fair value. The condensed consolidated interim financial information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated interim financial information is unaudited but have been reviewed by the audit committee of the Company.

Going Concern

As at 30 June 2020, the Group’s borrowings of approximately RMB387,197,000 will be matured within one year. The ability of the Group’s to repay the borrowing or extend the maturity date may cast significant doubt on the Group’s ability to continue as a going concern. Notwithstanding the above results, the condensed consolidated interim financial statements have been prepared on a going concern basis, the validity of the going concern basis is dependent upon the success of the Group’s future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements.

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

- i. The Group is taking measures to tighten cost control over various costs with an aim to attain profitable and positive cash flow operations;
- ii. The Group has obtained extension from the non-convertible noteholder and non-convertible bondholder to extend the maturity dates of both the non-convertible note and to non-convertible bond to 31 May 2021;
- iii. The Group is in the process of negotiating with its bankers to secure necessary facilities to meet the Group’s working capital and financial requirements in the near future;
- iv. The Board is considering taking various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limited to, seeking new investment and business opportunities, private placements, open offers or rights issue of new shares of the Company; and
- v. The substantial shareholder of the Company, Mr. Cai Chenyang is willing to provide financial support to the Group to enable the Group to continue as a going concern and to settle its liabilities as and when they fall due.

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





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

2. Significant Accounting Policies

This unaudited condensed consolidated interim financial information should be read in conjunction with the consolidated interim financial statements of the Group for the year ended 31 December 2019.

The accounting policies and methods of computation used in the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2020 are the same as those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2019. In the current interim period, the Group has applied, for the first time, certain new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current period.

3. Segment Information

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

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

4. Revenue

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

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Recognition at a point of time		
– Retail of pork	203,627	172,977
– Wholesale of pork	103,509	144,737
– Retail of frozen pork	12,999	10,979
– Wholesale of commodity hogs	3,395	5,404
	323,530	334,097





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

5. Other Income and Losses, net

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest income on:		
— bank deposits	21	29
— amortisation of deferred revenue	128	128
Total interest income	149	157
Gain on disposal of hog droppings	—	85
Gain on disposal of biological assets	2,316	1,062
Government grants (<i>Note</i>)	1,483	4,202
Sundry income	392	60
Loss on disposal of property, plant and equipment	(25)	(110)
	4,315	5,456

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

6. Finance Costs

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest on:		
— Borrowings wholly repayable within five years	6,136	6,440
— Other interest bearing payable wholly repayable within five years	773	1,264
— Imputed interest charged on convertible bonds	—	3,216
— Imputed interest charged on non-convertible bonds	3,379	—
— Interest expenses on lease liabilities/finance lease	1,443	751
	11,731	11,671





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

7. Taxation

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Current tax:		
— Hong Kong	—	—
— PRC	—	—
Total income tax for the period	—	—

Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profits. On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (“Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profit tax rates regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the statutory tax rate of Enterprise Income Tax (the “EIT”) for both domestic enterprises and foreign investment enterprises is 25%. Income derived by an enterprise from engaging in the raising of livestock and poultry shall be exempted from EIT. Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company, operating in the business of primary processing of agricultural products, were exempted from the PRC EIT during the six months ended 30 June 2019 and 2020.

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

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





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

8. Profit for the Period

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Staff costs including directors' emoluments		
Salaries and other emoluments	9,357	11,251
Retirement scheme contributions	139	497
Total staff costs	9,496	11,748
Depreciation of property, plant and equipment	14,571	15,653
Depreciation of right-of-use assets	3,726	—
Amortisation of prepaid lease payments	—	2,189
Total depreciation and amortisation	18,297	17,842

9. Dividends

The directors of the Company do not recommend the payment of any dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB Nil).

10. Earnings Per Share Attributable to Owners of the Company

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

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Earnings attributable to owners of the Company for the purpose of calculating basic earnings per share	8,826	37,420





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

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

	Six months ended 30 June	
	2020 '000 (Unaudited)	2019 '000 (Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,889,000	1,889,000

For the six months ended 30 June 2020 and 2019, the computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares.

11. Movement in Property, Plant and Equipment

During the period, the Group acquired plant and machinery, office equipment, motor vehicles and construction in progress of approximately RMB1,406,000 (2019: RMB126,000), RMB21,000 (2019: RMB6,000), RMB Nil (2019: RMB3,000) and RMB2,183,000 (2019: RMB3,228,000) respectively.





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

12. Biological Assets

Movements of the biological assets are as follows:

	Breeder hogs RMB'000	Commodity hogs RMB'000	Total RMB'000
As at 1 January 2019 (Audited)	18,883	149,262	168,145
Increase due to purchases	3,422	297,410	300,832
Increase due to raising (Feeding cost and others)	9,485	174,275	183,760
Transfer	(9,584)	9,584	—
Decrease due to retirement and deaths	(114)	(9,064)	(9,178)
Decrease due to sales	(850)	(474,635)	(475,485)
Change in fair value less costs to sell	(3,149)	37,369	34,220
As at 31 December 2019 and 1 January 2020 (Audited)	18,093	184,201	202,294
Increase due to purchases	3,857	152,596	156,453
Increase due to raising (Feeding cost and others)	4,837	66,410	71,247
Transfer	(5,789)	5,789	—
Decrease due to retirement and deaths	(42)	(5,834)	(5,876)
Decrease due to sales	(1,523)	(234,117)	(235,640)
Change in fair value less costs to sell	204	4,403	4,607
As at 30 June 2020 (Unaudited)	19,637	173,448	193,085

Note: The Group's biological assets as at 30 June 2020 and 31 December 2019 have been arrived at on the basis of a valuation carried out by Assets Appraisal Limited (the "Valuer"). Given the nature of the biological assets where market determined prices are available, the fair values less costs to sell have been determined by the market approach based on the market-determined prices as at 30 June 2020 and 31 December 2019 adjusted with such attributes as pig breed and stage of growth in the lifecycle. The gain arising from changes in fair value less costs to sell of biological assets of approximately RMB4,607,000 (six months ended 30 June 2019: approximately RMB20,082,000) has been recognised directly in profit or loss for the six months ended 30 June 2020.





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

13. Trade Receivables

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade receivables	132,062	135,331
Less: Allowance for credit losses	(1,018)	(110)
	131,044	135,221

The fair values of trade receivables approximate their carrying amount.

As at 30 June 2020 and 31 December 2019, there were no trade receivables from contracts with customers.

The Group normally allows a credit period ranging from cash upon delivery to 60–90 days depending on the customer's creditworthiness and the length of business relationship with the customers. The ageing analysis of trade receivables based on the invoice date at 30 June 2020 and 31 December 2019 is as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 30 days	53,030	35,730
31 to 90 days	77,246	88,915
91 to 180 days	1,289	10,681
Over 180 days	497	5
	132,062	135,331

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





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

14. Deposits Paid, Prepayments and Other Receivables

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Advances to staff	4,518	4,662
Other receivables (<i>Note (a)</i>)	28,590	28,613
Other deposits paid and prepayments (<i>Note (b)</i>)	126,304	124,452
	159,412	157,727

Notes:

- (a) The amount was mainly for the purchase of raw materials and commodity hogs on behalf of the Group.
- (b) For the six months ended 30 June 2020, the amount was mainly for the acquisition of breeder hogs and parental breeder hogs of approximately RMB74,180,000 (for the year ended 31 December 2019: approximately RMB69,803,000). During the six months ended 30 June 2020, the deposits paid of approximately RMB37,317,000 (for the year ended 31 December 2019: approximately RMB40,869,000) which mainly related to prepayments paid to an advertisement company for television advertisements.

15. Trade and Bills Payables

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade payables	6,573	12,524
Bills payables	13,600	10,250
	20,173	22,774





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

15. Trade and Bills Payables (Continued)

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 30 days	1,667	4,067
31 to 90 days	2,345	3,359
91 to 180 days	2,561	5,098
	6,573	12,524

The average credit period on purchases of certain goods is generally within 15 days to 90 days.

The Group normally obtains credit terms within 60 days from its suppliers (2019: 60 days). The bills payables are matured within twelve months (2019: twelve months) from the end of the reporting period.

16. Accruals, Deposits Received and Other Payables

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Deposits received	990	980
Other payables for property, plant and equipment	487	487
Accruals and other payables	49,457	48,570
	50,934	50,047
Less: non-current portion — other payables	(17,326)	(20,891)
Accrual, deposit received and other payables — current portion	33,608	29,156



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

17. Share Capital

Ordinary shares

	Number of shares	Nominal value of ordinary shares HK\$'000 (Unaudited)	Total RMB'000 (Unaudited)
Authorised:			
At 1 January and 30 June 2020 ordinary shares of HK\$0.05 each	80,000,000,000	4,000,000	3,240,009
Issued and fully paid:			
At 1 January and 30 June 2020 ordinary shares of HK\$0.05 each	1,889,000,000	94,450	77,894

18. Borrowings

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Borrowings — secured	383,322	378,424
Borrowings — unsecured	3,875	23,000
	387,197	401,424

At 30 June 2020, the borrowings were repayable as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Carrying amount repayable:		
On demand or within one year	387,197	401,424
Over one year	—	—
	387,197	401,424





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

18. Borrowings (Continued)

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Borrowings at:		
– Bank borrowings at floating interest rate	139,135	138,958
– Other unsecured borrowings at fixed interest rate	3,875	23,000
– Non-convertible note at fixed interest rate	100,478	98,536
– Non-convertible bond at fixed interest rate (<i>Note</i>)	143,709	140,930
	387,197	401,424

Note: The Convertible Bond has been matured and reclassified as non-convertible bond during the year ended 31 December 2019. The non-convertible bond was repayable within one year, and carry interest at 5% per annum.

As at 30 June 2020, the non-convertible bond of approximately RMB143,709,000 was secured by, among others, 816,000,000 ordinary shares of the Company by Zhan Rui, as summarized in the Company's announcement dated 28 September 2016. Mr. Cai Chenyang, the Chief Executive Officer, executive director and substantial shareholder of the Group, was deemed to be interested in 816,000,000 ordinary shares of the Company, which were held by Zhan Rui, a corporation controlled by Mr. Cai Chenyang.

The borrowings were denominated in RMB and Hong Kong dollars. The borrowing of approximately RMB109,613,000 was denominated in Hong Kong dollars for the six months ended 30 June 2020. (for the year ended 31 December 2019: approximately RMB107,494,000)

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

	As at 30 June 2020 % (Unaudited)	As at 31 December 2019 % (Audited)
Floating rate	3.38–6.18	3.30–6.09
Fixed rate	4.35–6.00	4.35–10.00

On 28 September 2016, the Company and Vandi Investments Limited (“the Investor”), a limited liability company incorporated in the BVI indirectly and wholly-owned by CCB International (Holdings) Limited and Mr. Cai Chenyang, entered into the subscription agreement (the “Subscription Agreement 2”) in respect of the issue of the non-convertible note (“Note”) in the principal amount of HK\$110,000,000 equivalent to approximately RMB95,071,000 due 2018 with an annual interest rate of 6.0% payable semi-annually and bearing an administrative fee of 2.0% per annum which was deducted as a lump sum from the issue price at the closing of the subscription and issue of the Note on 13 October 2016.





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

18. Borrowings (Continued)

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Note	100,478	98,536

Unless previously redeemed, or purchased and cancelled, the Company will redeem all the outstanding Note held by the noteholder on the date falling 2 years after the issue date of the Note at an amount equal to the aggregate of: (a) the aggregate principal amount of such outstanding Note held by such noteholder; and (b) any accrued but unpaid interest on such outstanding Note.

The collaterals for the Group's bank borrowings are as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Property, plant and equipment	73,225	77,300
Right-of-use assets	17,190	17,428
	90,415	94,728

As at 30 June 2020, the Group's bank borrowings of RMB130,000,000 (as at 31 December 2019: approximately RMB130,000,000) was guaranteed by the Company, Company's director, Mr. Cai Chenyang and pledged assets of the subsidiary, Tianyi (Fujian) Modern Agriculture Development Co., Ltd.

As at 30 June 2020, the Group's lease liabilities of approximately RMB12,518,000 (as at 31 December 2019: approximately RMB12,518,000) were secured by the pledged assets of the subsidiary, Tianyi (Fujian) Modern Agriculture Development Co., Ltd.





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

19. Lease Liabilities

The Group's lease liabilities arise from the leasing of plant and machinery, motor vehicles, buildings and land with a fixed lease term of 1²/₅–30 years. The weighted average incremental borrowing rates applied by the Group range from 5.65% to 7.55%.

The Group had lease liabilities repayable as follows:

	As at 30 June 2020		As at 31 December 2019	
	Present value of the minimum lease payments RMB'000 (Unaudited)	Total minimum lease payments RMB'000 (Unaudited)	Present value of the minimum lease payments RMB'000 (Audited)	Total minimum lease payments RMB'000 (Audited)
Within 1 year	13,746	14,818	14,332	15,437
After 1 year but within 2 years	694	1,089	1,194	1,615
After 2 years but within 5 years	891	2,187	935	1,960
More than 5 years	4,433	7,187	4,466	7,681
	6,018	10,463	6,595	11,256
	19,764	25,281	20,927	26,693
Less: total future interest expenses		(5,517)		(5,766)
Present value of lease liabilities		19,764		20,927

As at 30 June 2020, the Group's leases in respect of RMB19,764,000 (as at 31 December 2019: approximately RMB20,927,000) are secured by the lessor's title to the leased assets. The Group's lease liabilities are denominated in Hong Kong dollars and RMB, being the functional currency of the relevant group entity.



Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

20. Fair Value Measurement of Financial Instrument

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

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

Type	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2020 (RMB'000)	31 December 2019 (RMB'000)		
Biological assets Breeder hogs and commodity hogs	193,085	202,294	Level 2	The fair value less costs to sell of breeder hogs and porkers are determined using market approach with reference to the market determined prices of items with similar age, weight and breeds

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





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

21. Share Option Scheme

Details of the share option scheme of the Company

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

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

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

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





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

21. Share Option Scheme (Continued)

Details of the share option scheme of the Company (Continued)

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

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

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

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

As at 30 June 2020, the number of shares available for issue under the Share Option Scheme were 98,200,000 ordinary shares, representing 5.2% of the number of issued shares of the Company.

Options series	Remained Number	Grant date	Exercisable date	Expiry date	Exercise price HK\$
(1) Granted on 31 March 2015	26,920,000	31/03/2015	31/12/2015	30/03/2025	0.595
(2) Granted on 31 March 2015	34,460,000	31/03/2015	31/12/2016	30/03/2025	0.595
(3) Granted on 31 March 2015	36,820,000	31/03/2015	31/12/2017	30/03/2025	0.595





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

21. Share Option Scheme (Continued)

Details of the share option scheme of the Company (Continued)

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

Grantee	Exercisable period	Exercisable price per shares (HK\$)	Balance as at 31 December 2018 and 1 January 2019 ('000)	Lapsed during the year ('000)	Balance as at 31 December 2019 ('000)
Executive Directors					
— Mr. Cai Chenyang	(1) 31 Dec 2015 to 30 Mar 2025	0.595	21,000	—	21,000
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	24,960	—	24,960
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	26,480	—	26,480
— Mr. Cai Haifang	(1) 31 Dec 2015 to 30 Mar 2025	0.595	1,220	—	1,220
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	1,600	—	1,600
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	1,600	—	1,600
Employees of the Group	(1) 31 Dec 2015 to 30 Mar 2025	0.595	5,020	(320)	4,700
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	8,560	(660)	7,900
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	9,540	(800)	8,740
			99,980	(1,780)	98,200

Grantee	Exercisable period	Exercisable price per shares (HK\$)	Balance as at 31 December 2019 and 1 January 2020 ('000)	Lapsed during the year ('000)	Balance as at 30 June 2020 ('000)
Executive Directors					
— Mr. Cai Chenyang	(1) 31 Dec 2015 to 30 Mar 2025	0.595	21,000	—	21,000
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	24,960	—	24,960
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	26,480	—	26,480
— Mr. Cai Haifang	(1) 31 Dec 2015 to 30 Mar 2025	0.595	1,220	—	1,220
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	1,600	—	1,600
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	1,600	—	1,600
Employees of the Group	(1) 31 Dec 2015 to 30 Mar 2025	0.595	4,700	—	4,700
	(2) 31 Dec 2016 to 30 Mar 2025	0.595	7,900	—	7,900
	(3) 31 Dec 2017 to 30 Mar 2025	0.595	8,740	—	8,740
			98,200	—	98,200





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

21. Share Option Scheme (Continued)

Fair value of share options and assumptions

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

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

Assumptions and inputs adopted in the valuation are listed below:

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

Notes:

- (a) Fair value of all the share options granted at 31 March 2015 were HK\$49,120,000 equivalent to approximately RMB38,697,000. After 54 staffs declined the share options to subscribe for a total of 60,020,000 shares, the adjusted fair value of all the share options granted and accepted was HK\$31,200,000 equivalent to approximately RMB25,000,000. As the vesting period has finished during the year 31 December 2017, the Group did not recognize equity-settled share-based payment expenses in the profit and loss for the six months ended 30 June 2020 (2019: RMB Nil).
- (b) Volatility represents annualized standard deviation of the weekly return of stock price of GCHE.rm, 600975.ch and 002505.ch.
- (c) Risk free rate represents the yields to maturity of respective HKD Hong Kong Sovereign Curve.
- (d) The exercise multiple defines the early exercise strategy by assuming that early exercise happens when the stock price is the certain multiple of the exercise price.





Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2020

22. Capital Commitments

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Capital expenditure contracted but not provide for in respect of acquisition of property, plant and equipment	69,024	69,024

23. Operating Lease Commitments

The Group as lessee:

As at 30 June 2019, the Group had commitments for future minimum lease payments in respect of retail outlets and office premises under non-cancellable operating lease which fall due as follows:

	As at 30 June 2019 RMB'000 (Unaudited)
Within one year	2,411
In the second to fifth years, inclusive	4,068
After five years	9,355
	15,834

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

24. Approval of the Interim Financial Statements

The condensed consolidated interim financial information were approved and authorized for issue by the Board of Directors of the Company on 28 August 2020.





Other Information

Covenants Relating to Specific Performance of the Controlling Shareholder

Pursuant to the bond instruments constituting the non-convertible bond (the “Non-Convertible Bond”, Note 18) and the Note issued by the Company to the Investor, the holders of the Non-Convertible Bond and the Note shall have the right to require the Company to redeem the Non-Convertible Bond and the Note in full during the continuance of the events of default. The events of default are, among others, the cessation of Mr. Cai Chenyang, an indirect controlling shareholder of the Company and the chairman of the Board, as the single largest shareholder (taking into account his indirect shareholding in the Company) or the controlling shareholder of the Company, the cessation of Mr. Cai Chenyang as the 100% legal and beneficial owner of the issued shares in Zhan Rui, the resignation or cessation of Mr. Cai Chenyang as the chairman of the Board, and Mr. Cai Chenyang defaults in the performance or observance of any terms of the security documents (including the breach of representations and undertakings of Mr. Cai Chenyang under the New Share Charge Deed as set out in the announcement of the Company dated 28 September 2016) and such default (i) is incapable of remedy or (ii) being a default which is, in the opinion of the bondholders, capable of remedy, remains unremedied for 14 days after the bondholders have given written notice thereof to the Company.

Share Charge by the Controlling Shareholder

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





Other Information (Continued)

Disclosure of Interests

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

As at 30 June 2020, the interests and short positions of the directors and chief executive in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the “SFO”)) as recorded in the register of interest required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer as set out in Appendix 10 to the Listing Rules (“Model Code”) were as follows:

Long position in the shares and underlying shares of the Company

Name	Nature of interest	Number of ordinary shares and underlying shares of the Company held	Approximate percentage of the issued share of the Company
Mr. Cai Chenyang (<i>Note 1</i>)	Interest of controlled corporation and beneficial owner	1,078,440,000	57.09%
Mr. Cai Haifang (<i>Note 2</i>)	Beneficial owner	4,420,000	0.23%
Ms. Ma Yilin (<i>Note 3</i>)	Beneficial owner	12,976,000	0.69%

Notes:

- (1) Among the 1,078,440,000 shares/underlying shares held, Mr. Cai Chenyang is deemed to be interested in 1,006,000,000 shares of the Company, which are held by Zhan Rui Investments Limited (“Zhan Rui”), a corporation controlled by Mr. Cai Chenyang, while he holds derivative interest in 72,440,000 underlying shares as beneficial owner pursuant to physical settled equity derivatives.
- (2) Mr. Cai Haifang held derivatives interest in 4,420,000 underlying shares in the Company as beneficial owner pursuant to physically settled equity derivatives.
- (3) Ms. Ma Yilin is deemed to be interested in 12,976,000 shares of the Company.

Short position in the shares and underlying shares of the Company

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

Note:

- (1) Mr. Cai Chenyang, through Zhan Rui, a corporation controlled by him, is deemed to have a short position of 1,006,000,000 shares of the Company, among which 816,000,000 ordinary shares of the Company were charged to Vandí Investments Limited. Mr. Cai Chenyang also had a short position of 72,440,000 underlying shares of the Company, which is a short position over unlisted physically settled equity derivatives.





Other Information (Continued)

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

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

Save as disclosed above, as at 30 June 2020, none of the directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2020, the interest or short position of the persons (other than the directors or chief executive of the Company) in shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position in the shares and underlying shares of the Company

Name	Nature of interest	Number of ordinary Shares/ underlying shares of the Company held	Approximate percentage of the issued share capital of the Company
Zhan Rui (Note 1)	Beneficial owner	1,078,440,000	57.09%
Sze Ching Lau	Beneficial owner	100,476,000	5.32%
BCAGI	Beneficial owner	99,000,000	5.24%
China Construction Bank Corporation (Note 2)	Interest of controlled corporation/ security interest in shares	816,000,000	43.20%
Central Huijin Investment Ltd. (Note 3)	Interest of controlled corporation/ security interest in shares	816,000,000	43.20%

Notes:

- (1) Zhan Rui held 1,006,000,000 shares in the Company. Zhan Rui was also interested in 72,440,000 underlying shares of the Company pursuant to its interests in unlisted physically settled equity derivatives.
- (2) Such long position includes security interests in 816,000,000 shares of the Company held by Vandi Investments Limited, a corporation 100% indirectly controlled by China Construction Bank Corporation.
- (3) Such long position includes security interests in 816,000,000 shares of the Company held by Vandi Investments Limited, a corporation 100% indirectly controlled by China Construction Bank Corporation (of which Central Huijin Investment Ltd. has 57.31% control).





Other Information (Continued)

Short position in the shares and underlying shares of the Company

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

Note:

- (1) Zhan Rui is deemed to have a short position of 1,006,000,000 shares of the Company, which included 816,000,000 ordinary shares has been charged to Vandi Investments Limited. Zhan Rui also had a short position of 72,440,000 underlying shares of the Company, which is a short position over unlisted physically settled equity derivatives.

Save as disclosed above, as at 30 June 2020, no person (other than the directors or chief executive of the Company) had any interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Purchase, Sale or Redemption of Listed Securities of the Company

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

Corporate Governance Practices

The Company has adopted the code provisions of the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Save as disclosed below, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, during the six months ended 30 June 2020, complied with all applicable code provisions of the Code.

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





Other Information (Continued)

Compliance with the Model Code

The Company has adopted the code provisions of the Model Code as its code of conduct regarding directors' securities transactions. Having made specific enquiry with all the directors of the Company, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions for the six months ended 30 June 2020.

Audit Committee

The audit committee of the Board (the "Audit Committee") comprises three independent non-executive directors, namely Mr. Xue Chaochao, Mr. Cai Zirong and Mr. Wang Aiguo. The Audit Committee is chaired by Mr. Xue Chaochao.

The Audit Committee had reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020, including the accounting principles adopted by the Group, and took the view that the Company was in full compliance with all applicable accounting standards and regulations and adequate disclosures had been made.

Share Option Scheme

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





Other Information (Continued)

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

Grantee	Date of grant	Exercise period	Exercise price per share (HK\$)	Balance as at 31 December 2019 and 1 January 2020 ('000)	Lapsed/ cancelled during the period ('000)	Exercised during the period ('000)	Balance as at 30 June 2020 ('000)
Executive Directors							
– Mr. Cai Chenyang	31 March 2015	(1) 31 Dec 2015 to 30 Mar 2025	0.595	21,000	–	–	21,000
	31 March 2015	(1) 31 Dec 2016 to 30 Mar 2025	0.595	24,960	–	–	24,960
	31 March 2015	(1) 31 Dec 2017 to 30 Mar 2025	0.595	26,480	–	–	26,480
– Mr. Cai Haifang	31 March 2015	(1) 31 Dec 2015 to 30 Mar 2025	0.595	1,220	–	–	1,220
	31 March 2015	(1) 31 Dec 2016 to 30 Mar 2025	0.595	1,600	–	–	1,600
	31 March 2015	(1) 31 Dec 2017 to 30 Mar 2025	0.595	1,600	–	–	1,600
Employees of the Group	31 March 2015	(1) 31 Dec 2015 to 30 Mar 2025	0.595	4,700	–	–	4,700
	31 March 2015	(1) 31 Dec 2016 to 30 Mar 2025	0.595	7,900	–	–	7,900
	31 March 2015	(1) 31 Dec 2017 to 30 Mar 2025	0.595	8,740	–	–	8,740
				98,200	–	–	98,200

Notes:

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

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

Purpose of the Share Option Scheme

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

Participants of the Share Option Scheme

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





Other Information (Continued)

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

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

Maximum entitlement of each Participant

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

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

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

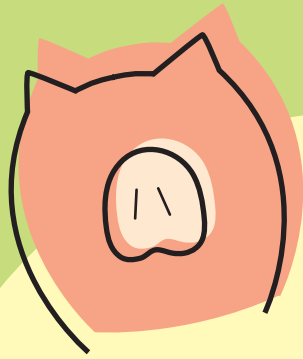
Payment on acceptance of option offer

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

Basis of determining the exercise price

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





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