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TIANYUN INTERNATIONAL HOLDINGS LIMITED
天韵國際控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 6836)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

HIGHLIGHTS

	For the six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
Key financial data		
Revenue	**439.3**	343.3
Gross profit	**122.1**	92.8
Net profit	**67.5**	52.3
Earning per share (RMB cent)	**6.90**	5.35
Interim dividend (HK cent per ordinary share)	**1.7**	1.6

As compared with the same period in 2017:

- Total revenue increased by 28.0% to RMB439.3 million
- Revenue from own brand business surged by 51.0% to RMB209.5 million
- Gross profit increased by 31.6% to RMB122.1 million
- Net profit increased by 29.1% to RMB67.5 million
- Earning per share increased by 29.0% to RMB6.90 cents
- Interim dividend increased by 6.3% to HK1.7 cents per share

The board of directors (the "Directors" or the "Board") of Tianyun International Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018, together with the unaudited comparative figures for the corresponding period in 2017, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

		Unaudited Six months ended 30 June	
	Note	**2018**	2017
		RMB'000	*RMB'000*
Revenue	5	**439,294**	343,289
Cost of sales		**(317,212)**	(250,506)
Gross profit		**122,082**	92,783
Other income		**585**	205
Other loss, net		**(368)**	–
Selling and distribution expenses		**(6,508)**	(10,325)
General and administrative expenses		**(19,311)**	(14,368)
Operating profit	6	**96,480**	68,295
Finance income		**599**	326
Finance costs		**(5,839)**	(622)
Finance costs – net		**(5,240)**	(296)
Profit before income tax		**91,240**	67,999
Income tax expense	7	**(23,746)**	(15,653)
Profit and total comprehensive income for the period attributable to equity holders of the Company		**67,494**	52,346
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB cents)			
– Basic earnings per share	9	**6.90**	5.35
– Diluted earnings per share	9	**6.74**	5.35

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	**Unaudited 30 June 2018** *RMB'000*	Audited 31 December 2017 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	**264,589**	199,694
Leasehold land and land use rights	*10*	**67,379**	56,976
Prepayments	*11*	**42,000**	54,855
Investment properties	*12*	**34,500**	34,000
Goodwill	*15*	**1,104**	–
Total non-current assets		**409,572**	345,525
Current assets			
Inventories		**72,962**	75,727
Trade and other receivables	*11*	**144,500**	107,741
Cash and cash equivalents		**411,414**	309,167
Total current assets		**628,876**	492,635
Total assets		**1,038,448**	838,160
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		**222,133**	232,459
Reserves		**478,581**	421,453
Total equity		**700,714**	653,912
LIABILITIES			
Non-current liabilities			
Bank borrowings		**27,538**	–
Contingent consideration payable		**17,804**	–
Total non-current liabilities		**45,342**	–
Current liabilities			
Trade payables	*13*	**48,869**	25,178
Accruals and other payables		**22,747**	15,947
Bank and other borrowings		**118,709**	81,677
Convertible bonds	*14*	**86,435**	59,535
Current income tax liabilities		**15,632**	1,911
Total current liabilities		**292,392**	184,248
Total liabilities		**337,734**	184,248
Total equity and liabilities		**1,038,448**	838,160

NOTES:

1 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and has been prepared under the historical cost convention as modified by the valuation of investment properties, convertible bonds and contingent consideration payable, which are stated as fair value.

2 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2018. The followings are other accounting policies which are relevant to the preparation of the condensed consolidated interim financial information for the six months ended 30 June 2018.

(a) The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2018 and currently relevant to the Group:

- Amendments to HKFRS 1 and HKAS 28, "Annual Improvements 2014-2016 Cycle"
- Amendments to HKFRS 2, "Classification and Measurement of Share-based Payment Transactions"
- Amendments to HKFRS 4, "Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts"
- HKFRS 9, "Financial Instruments"
- HKFRS 15, "Revenue from Contracts with Customers"
- Amendments to HKFRS 15, "Clarifications to HKFRS 15"
- Amendments to HKAS 40, "Transfers of Investment Property"
- HK(IFRIC) – Int 22, "Foreign Currency Transactions and Advance Consideration"

The impact of the adoption of HKFRS 9 and HKFRS 15 have disclosed in below. The other standards effective from 1 January 2018 did not have significant impacts on the Group's results and financial position and did not require retrospective adjustments.

HKFRS 9 "Financial Instruments"

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

Impact

Classification and measurement of financial instruments

The Group does not hold any financial instruments that is affected by the change of classification and measurement as at the reporting dates. No adjustments are therefore required.

Derivatives and hedging activities

The Group does not hold any derivatives as at the reporting dates. No adjustments are therefore required.

Trade and other receivables

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the customers' past settlement pattern, existing market conditions as well as forward looking estimates at the end of each reporting period. The Group considers that there are no material credit losses was experienced in the past as well as no adverse change is anticipated in the business environment. The management considers the adoption of HKFRS 9 does not have significant impact to the Group and therefore no adjustments are required.

HKFRS 15 "Revenue from contracts with customers"

Nature of change

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including HKAS 18, Revenue, HKAS 11, Construction contracts and HK(IFRIC)-Interpretation 13, Customer Loyalty Programmes. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgement and estimates.

Revenues are recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

Impact

The recognition basis of the income from sales of goods remains unchanged at the point in time when the goods have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The adoption of HKFRS 15 does not have significant impact to the Group and therefore no adjustments are required.

(b) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKAS 12	Income Taxes	1 January 2019
HKFRS 7	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA

HKFRS 16 "Leases"

HKFRS 16 will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

Impact

Based on management's initial assessment, the initial adoption of HKFRS 16 in the future will result in an increase in the right-of-use assets and the lease liabilities, which is expected to result in a significant increase in both assets and liabilities in the consolidated balance sheet. The adoption will also front-load the expense recognition in the consolidated income statement over the period of the leases, as a result of the combination of the interest expenses arising from the lease liabilities and the amortization of the right-of-use assets as compared to the rental expenses under existing standard.

Date of adoption by the Group

It is mandatory for financial years commencing on or after 1st January 2019. At this stage the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Apart from aforementioned HKFRS 16, the directors of the Company are in the process of assessing the financial impact of the adoption of the other new standards and amendments to standards. The directors of the Company will adopt the new standards and amendments to standards when they become effective.

3 ESTIMATES

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The following new significant judgement is made by the management in preparing this condensed consolidated interim financial information. Other significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

Purchase consideration payable for acquisition

Fair value of contingent consideration payable

The fair value of contingent consideration payable was determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions, including post-acquisition performance of the acquired businesses and fair value of the Company's shares, which are mainly based on market conditions existing at the end of each reporting period.

Changes in assumption used could materially affect the fair value of these balances and as a result affect the Group's financial condition and results of operation.

4 SEGMENT INFORMATION

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker that are used to making strategic decisions. The chief operating decision-maker is identified as the chief executive officer of the Company.

The chief operating decision-maker assesses the performance of the Group based on a measure of profit after income tax and considers the Group in a single operating segment. Information reported to the chief operating decision-maker for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment – manufacturing and sales of processed fruit products and trading of fresh fruits, and segment information are not presented.

The Company is domiciled in the British Virgin Islands while the Group operates its business in the PRC. The Group's revenue of RMB396,241,000 and RMB308,857,000 was generated from customers in the PRC, and the Group's revenue of RMB43,053,000 and RMB34,432,000 was generated from overseas customers for the six months ended 30 June 2018 and 2017, respectively.

Segment assets and liabilities

No assets and liabilities are included in the Group's segment reporting that are submitted to and reviewed by the chief operating decision maker internally. Accordingly, no segment assets and liabilities are presented.

Information about major customers

External customers contribute over 5% of total revenue of the Group for any of the six months ended 30 June 2018 and 2017 are as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Customer A	**29,734**	27,388
Customer B	**24,035**	20,337
Customer C *(Note)*	**19,280**	17,369

Note:

The corresponding revenue did not contribute over 5% of total revenue of the Group during the six months ended 30 June 2018.

5 REVENUE

The Group is principally engaged in the manufacturing and sales of processed fruits products and trading of fresh fruits. Revenue recognised during the periods ended 30 June 2018 and 2017 are as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Revenue		
Domestic sales	**396,241**	308,857
Direct overseas sales	**43,053**	34,432
Total sale of goods	**439,294**	343,289

6 OPERATING PROFIT

An analysis of the amounts presented as operating items in the condensed consolidated interim financial information is as below:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Auditors' remuneration	**828**	800
Cost of inventories sold	**293,778**	233,404
Depreciation of property, plant and equipment	**9,391**	5,960
Amortisation on land use right	**830**	724
Employee benefit expenses (including directors' emoluments)	**19,019**	13,246
Operating lease payments	**217**	209
Net exchange losses	**2,342**	1,330
Land taxes, surcharges and other taxes	**5,981**	4,249

7 INCOME TAX EXPENSE

The Company is incorporated in the BVI under the Business Companies Act of the BVI and, accordingly, are exempted from the BVI income tax.

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit generated in Hong Kong for six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

PRC corporate income tax has been provided at the rate of 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items which are not assessable or deductible for the PRC corporate income tax purpose. Certain subsidiaries of the Group are entitled to preferential tax incentives in the cities where the subsidiary is located.

The amount of taxation charged to the condensed consolidated interim statement of comprehensive income represents:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current income tax		
PRC corporate income tax	**23,746**	15,653

8 DIVIDENDS

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Final dividend paid during the period:		
2017 final dividend HK$ 0.026 per ordinary share (2016: HK$0.025 per ordinary share)	**20,757**	21,685
Interim dividend declared subsequent to the period end:		
2018 interim dividend HK$0.017 per ordinary share (2017: HK$0.016 per ordinary share)	**14,586**	13,291

The Board has declared that an interim dividend of HK1.7 cents per share for the six months ended 30 June 2018 to shareholders whose names appear in the Register of Members on 29 November 2018.

9 EARNINGS PER SHARE

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares deemed to be in issue, including the weighted average number of issuable shares of which all necessary conditions are satisfied under the consideration share arrangement (Note 15), during the periods.

	Six months ended 30 June	
	2018	2017
Profit attributable to equity holders of the Company *(RMB$'000)*	**67,494**	52,346
Weighted average number of ordinary shares in issue *(thousand)*	**977,462**	977,641
Weighted average number of issuable shares *(thousand)*	**33**	–
	977,495	977,641
Basic earnings per share *(RMB cents)*	**6.90**	5.35

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bond is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expenses and the fair value changes less the tax effect. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the period) for the same total proceeds as it is the number of shares issued for no consideration.

	Six months ended 30 June	
	2018	2017
Profit attributable to owners of the Company *(RMB'000)*	**67,494**	52,346
Effect of dilutive potential shares:		
Interest expenses of convertible bonds *(RMB'000)*	**1,989**	–
Remeasurement on convertible bonds *(RMB'000)*	**868**	–
	70,351	52,346

	Number of shares	
	2018	2017
Weighted average number of shares for calculation of basic earnings per share *(thousand)*	**977,495**	977,641
Effect of dilutive potential shares:		
Convertible bonds assumed to be converted *(thousand)*	**63,766**	–
Share options of the Company assumed to be exercised *(thousand)*	**2,014**	–
Weighted average number of shares for calculation of diluted earnings per share *(thousand)*	**1,043,275**	977,641
Diluted earnings per share *(RMB cents)*	**6.74**	5.35

10 PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS

As at 30 June 2018 and 31 December 2017, the net book value of buildings of RMB79,109,000 (As at 31 December 2017: RMB17,655,000) and plant and machinery, office and equipment and furniture and fixtures of RMB23,092,000 (As at 31 December 2017: RMB24,790,000) were pledged to a bank and a leasing company for securing the Group's general banking facilities and the loans from a leasing company, respectively.

During the period ended 30 June 2018, no borrowing cost has been capitalised (for the six months ended 30 June 2017: RMB1,911,000).

11 TRADE AND OTHER RECEIVABLES

	As at	
	30 June	31 December
	2018	2017
	RMB'000	*RMB'000*
Trade receivables *(Note a)*	**139,206**	99,745
Prepayments	**43,875**	59,397
Other receivables	**3,419**	3,454
	186,500	162,596
Less: non-current portion		
Prepayments for land use rights	**(42,000)**	(42,000)
Prepayments paid for business acquisition	**–**	(12,855)
Current portion	**144,500**	107,741

(a) Trade receivables

The Group's credit terms granted to wholesale customers generally ranged from 30 to 60 days. As at 30 June 2018 and 31 December 2017, the ageing analysis of the trade receivables based on invoice date is as follows:

	As at	
	30 June	31 December
	2018	2017
	RMB'000	*RMB'000*
Less than 30 days	**94,523**	58,300
31 to 60 days	**42,443**	39,279
More than 60 days	**2,240**	2,166
	139,206	99,745

No provision for impairment of trade receivables was made as at 30 June 2018 and 31 December 2017.

(b) The carrying amounts of trade and other receivables approximate their fair values.

12 INVESTMENT PROPERTIES

	As at	
	30 June	31 December
	2018	2017
	RMB'000	*RMB'000*
Opening balance at 1 January	**34,000**	–
Transfer from property, plant and equipment	**–**	29,500
Fair value change	**500**	4,500
	34,500	34,000

Amounts recognised in profit or loss for investment properties

	Six months ended	
	30 June	30 June
	2018	2017
	RMB'000	*RMB'000*
Rental income	**338**	–
Fair value gain recognised	**500**	–

Principal investment properties

Location	**Approximate gross floor area (square meter)**	**Category of the lease term**
Northside of Fenghuang Main Street, Westside of Wanquan Road, Linyi City, Shandong Province, the PRC	5,733	Land use rights for a term expired 18 April 2057

All of the fair value measurements of the Group's investment properties were categorised into level 3 of the fair value hierarchy.

13 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice date is as follows:

	As at	
	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
Less than 30 days	**33,864**	20,995
31 to 90 days	**9,972**	1,947
91 to 180 days	**3,244**	1,653
181 to 365 days	**1,215**	528
Over 365 days	**574**	55
	48,869	25,178

The carrying amounts of trade payables approximate their fair values.

14 CONVERTIBLE BONDS

	RMB'000
As at 1 January 2017	–
Fair value of convertible bonds issued	59,670
Re-measurement on convertible bonds	
Exchange difference	(863)
Fair value loss	728
As at 31 December 2017	59,535

	RMB'000
As at 1 January 2018	**59,535**
Fair value of convertible bonds issued *(Note)*	**26,032**
Re-measurement on convertible bonds:	
Exchange difference	**1,176**
Fair value gain	**(308)**
As at 30 June 2018	**86,435**

Note:

During the period, the Group issued convertible bonds with principal value of USD4,000,000 (equivalent to approximately RMB26,032,000) with interest of 6% per annum. The bonds matures on the 364th day from the date of issue of bonds at their principal value or can be converted into ordinary shares at the holder's option at HK$1.58 per conversion share. The maximum number of ordinary shares to be converted to 19,620,253 shares and none of them was converted up to 30 June 2018.

The entire convertible bond is designated as a financial liability through profit or loss and classified as current liability as at 30 June 2018.

The Group's convertible bond is valued by an independent professional valuer, Roma Appraisals Limited, by using binomial model with the following key assumptions:

	On inception date	**As at 30 June 2018**	On inception date	As at 31 December 2017
Discount rate	**9.21%-9.56%**	**9.87%-9.98%**	9.21%	9.29%
Volatility	**38.78%-39.34%**	**30.78%-31.80%**	38.78%	40.51%
Dividend yield	**4.24%-5.22%**	**4.23%-4.24%**	5.22%	5.22%

15 BUSINESS COMBINATION

On 31 January 2018, the Group completed the acquisition of 100% of issued shares in Strong Won Investments Limited and its subsidiaries ("Strong Won"), which is principally engaged in the production and sales of processed fruits products.

The consideration was settled by a combination of (i) HK$33.0 million (approximately RMB27.4 million) of the Consideration settled in cash and (ii) a maximum of HK$22.0 million (approximately RMB17.8 million) of the Consideration settled by way of allotment and issue at maximum of 17,188,000 new Shares (the "Consideration Shares") at the consideration of HK$1.28 per Share. The actual number of Consideration Shares to be issued is subject to the Strong Won's production volume and revenue of Strong Won in the three years after the acquisition.

Based on the provisional purchase price allocation, the following table summarises the consideration paid for Strong Won and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	RMB'000
Consideration	
Fair value of share consideration	17,804
Cash consideration paid	27,452
Total consideration as at acquisition date	45,256

	RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	81,215
Construction in progress	27
Inventories	8,850
Other receivables, deposits and prepayments	1,147
Bank balances and cash	198
Trade payables	(2,908)
Accruals and other payables	(5,489)
Bank borrowings	(38,888)
Total identifiable net assets acquired	44,152
Add: Goodwill on business combination	1,104
	45,256

	RMB'000
Net cash outflow on acquisition of business	
Cash consideration paid	27,452
Cash and cash equivalents acquired	(198)
Total consideration as at acquisition date	27,254

MANAGEMENT DISCUSSION AND ANALYSIS

Tianyun International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") are principally engaged in (i) the production and sales of processed fruit packaged in metal containers, plastic cups and glass containers and (ii) trading of fresh fruit. Processed fruit is sold both under our own brands and on OEM basis.

The Group has been consistently committed to provide healthy and safe products to its customers. As one of the food enterprises with the most comprehensive list of overseas and local quality certifications, we have always been dedicated to following stringent international production standards and are accredited with BRC (A+), IFS Food (High), FDA, HALAL, SC, KOSHER, BSCI and ISO22000 etc in respect of our production facilities, quality control and management. The Group has also passed the internal food production standard reviews and audits from some of the UK and US supermarket chains. At the same time, within China, as a "Equal production line; Equal standard; Equal quality" food production and export enterprise, the Group has been supplying products of equivalent quality to domestic and international markets. Since 2016, the Group's own brand processed fruit products have continued to obtain a high degree of market recognition, and have been awarded by a national institution the honour and qualification of "China Canned Product Quality Certification Label", becoming the first fruit processor in China's fruit processing industry to put the "Zero Added Preservative Canned Products" label for its products sold in China.

BUSINESS REVIEW

According to Euromonitor estimates, sales of the packaged food market in China in 2017 amounted to approximately RMB1,577 billion, growing at an average rate of 6.6% annually between 2012 to 2017. Meanwhile, concepts such as "Food Safety" and "Healthy Diet" continue to be a market trend, as branded companies successfully rebuild consumer confidence in food safety in China through increasing efforts in the management of raw materials and production methods. With China's consumers gravitating towards a more westernised lifestyle and consumptions channels continuously changing, there is a high degree of willingness to try new products with respect to snacks. All these provide opportunities for the Group to further expand into the China market.

In the first half of 2018 (the "Review Period"), the Group has strived to develop its businesses and maintained a strategy of parallel development of its own brand and OEM business. During the Review Period, the Group's revenue, gross profit and net profit grew 28.0%, 31.6% and 29.1% respectively to RMB439.3 million, RMB122.1 million and RMB67.5 million, of which revenue from our own brand business even soared by 51.0% to RMB209.5 million. The share of our own brand business in the Group's total revenue further rose to 47.7%. Our own brand business segment becomes the largest reported segment for the first time.

During the Review Period, the Group was honoured with the title of "2017 Linyi Mayors Quality Award", and was awarded "2018 China Canned Food Leading Brand" and "2018 China Canned Food Leading Enterprise" by the China Canned Food Industry Association. Meanwhile, with its outstanding brand value impact, the Group is once again included in the 2018 Most Valuable Chinese Brands List for its outstanding brand influence. The brand value of the Group reached RMB880 million. Our numerous honours attest to the market's strong recognition and affirmation of the Company's brand value, and at the same time represent a robust growth in both market share and consumer recognition of the Group's own brand products.

OWN BRAND PRODUCT SALES STRATEGY

During the Review Period, our own brand business continues to record robust growth, as income from products under the "天同時代 (Tiantong Times)", "繽果時代 (Bingo Times)", and "果小懶" brands has risen steadily with a strong development momentum. During the first half of this year, revenue from its own brand business even experienced a period-on-period growth of 51.0% to RMB209.5 million.

During the Review Period, the Group continued to expand its own brand sales network, actively participated in various national food fairs, and developed outstanding regional distributors and chain superstore channels, etc. The geographical coverage of our own brand products has further extended to 24 provinces, direct-controlled municipalities and autonomous regions as well as Hong Kong and Macau markets. The new distribution system for our own brands, which the Group has adopted since 2015, has successfully strengthened interaction and cooperation with our distributors. The number of exclusive regional distributors has also expanded to 204 and we have successfully made our products available at chain supermarkets such as RT-Mart, CR Vanguard and Jinan Hualian. The continuous expansion of our own brand sales network has become a substantial driving force for our own brand business.

Meanwhile, the Group has continued to actively raise the recognition of our own brand, interacting with regional distributors, retailers and customers, strongly promoting the Group's brand and product edge in different regions. Based on market conditions in their own regions, distributors held promotional activities such as roadshows, complimentary quantity promotion, tasting, lucky draws, and redemptions in locations with dense pedestrian traffic such as malls, squares, parks, and school gates.

In terms of products, the Group has launched products in different packaging series to satisfy the demands of different target customer groups. For instance, the Group launched large-sized glass container products in chain supermarkets and outlets and conducted promotional activities through traditional channels to satisfy market demand for family-sized products and realise brand output and rapid dissemination; the Group also launched products in small pull-tab can container series, offering more casual, convenient and fashionable elements to the products to attract the younger consumer group.

OWN BRAND PRODUCT ONLINE SALES STRATEGY

Online shopping in China is developing at lightning speed, and the Group's investment in e-commerce platforms such as WeChat Business and TMall has also begun to pay off. During the Review Period, the Group enhanced the online image of our own brand through online sales and branding strategies such as remodelling and upgrading the package, labelling and carton design, updating the webpage of the online store, organising various reward programmes, and increasing fruit flavours and varieties, which were unanimously well-received by consumers and contributed to a definite drive and growth in sales. During the Review Period, revenue from online sales grew to RMB35.2 million, representing 16.8% of the Group's revenue from the own brand business.

OEM SALES STRATEGY

During the Review Period, our OEM business continued to develop steadily as we worked seamlessly with renowned international food brands. The recent U.S. – China trade dispute has had minimal impact on the Group's sales, as global demands for "Made in China" processed food products remain massive. Notwithstanding the relatively dispersed final exporting regions of the Group's OEM processed fruit products, we will continue to develop more new quality customers in the regions such as Canada, Europe, Australia, New Zealand, Japan and Korea. During the Review Period, revenue from our OEM business grew by 16.1% to RMB181.4 million, representing 41.3% of the Group's total revenue.

TRADING OF FRESH FRUIT AND OTHERS

The Group has consistently selected and resold a small portion of the fresh fruit to fresh fruit wholesalers in the PRC. During the Review Period, the revenue from trading of fresh fruit and others was approximately RMB48.4 million, representing 11.0% of the Group's total revenue.

As e-commerce in China rapidly develops, consumers are finding it increasingly convenient to purchase fresh fruits online. The Group has been consistently keeping a close watch on the development of China's fresh fruit market, actively seeking partners who possess domestic and overseas fresh fruit sales channels as well as renowned fresh fruit-related brands in China, in order to increase sales, processing and exchange of fruits from different production areas hyphen both domestic and overseas, and to bring a richer and more diversified selection of quality, fresh fruits and processed fruits to the consumers at large.

EXPANSION OF PRODUCTION FACILITIES

During the Review Period, the Group continued to advance the enhancement and upgrade of its production facilities, in order to raise its production efficiency and capacity. The preparations for production workshops No. 5 and No. 6 have been actively in process.

Since the start of 2018, the Group has been committed to promoting the de-seasonalised modes of production strategy. By making adjustments to product type structure such as increasing the production ratio of plastic cup products and production schemes for new beverage additions, we strive to raise the annual designed production capacity of our existing facilities and reduce our reliance on seasonally produced raw materials.

In January 2018, the Group completed the acquisition of Strong Won Investments Limited, which in turn held the entire registered capital of Tiantong Foods (Yichang) Ltd. (天同食品(宜昌)有限公司) ("Yichang Tiantong"), targeting an aggregate of 80,000 tonnes production of processed fruit for the Group in the next 3 years. Yichang Tiantong is located in Dangyang City of Hubei Province and owns land use rights of 101 mu and production facility with gross floor area of 26,000 square metres, among which is a production workshop with 12 production lines, an office building, a warehouse, and environmental protection and staff facilities. Yichang Tiantong also holds the required production licences in China and various international accreditations relating to its production facilities, quality control and management system.

RESEARCH AND DEVELOPMENT

The Group has always valued research and development of new products and improvements in processing technology. As consumers continuously seek new flavours and experience in different flavours, the Group has sustained its innovative efforts, introducing a diverse range of new products with different flavours. Among these, a fat-free pure fruit snack food of the Group which is similar to ice-cream has received the "Certificate of Invention Patent" issued by the State Intellectual Property Office of the People's Republic of China for its superior product technology in July 2018. The validity period of the patent is 20 years. The new product is a healthy snack food, which does not contain any fat, and can be transported and stored at room temperature. It is a revolutionary product that is convenient for transportation and storage, which contains original fruit taste and nutrition with a soft taste like ice-cream after freezing for a few hours. The outer package of the product has been designed and entered the mass production stage. The first batch of products will be officially launched in the mainland China, Hong Kong and Macau markets in the second half of 2018.

Furthermore, the Group has completed R&D on a functional beverage formula which suits the Chinese market; it has passed testing by the relevant government authorities and a production license application for the beverage is currently in process. Meanwhile, the Group has numerous new products either in the pipeline or currently undergoing R&D, such as healthy pudding with different flavours. These innovative snacks will be gradually rolled out based on market circumstances, in order to satisfy and suit the tastes and demands of consumers in different age groups.

On product packaging, the Group is also actively researching more environmentally friendly and convenient alternative canned food packaging other than tin cans, plastic bottles and glass bottles. The new form of packaging will facilitate the increase of product types and specifications, and attract more orders.

PROSPECTS

According to the "2017-2022 China's Snack Products Industry Prospects and Investment Opportunities Analysis Report" published by ASKCI Consulting, it is expected that by 2018, sales of snack products in China could reach 17,490,000 tonnes, while market size could even exceed RMB500 billion. The Group believes that income per capita and disposable income would continue to grow as China's economy maintains its robust growth, and China's snack products will be greeted with broader market space.

The Group strives to provide quality and safe, healthy and delicious, nutritious and convenient instant processed fruit products. Through business strategies to meet market demands, the Group will grasp development opportunities to consolidate our market position, with the aim to be one of the leading fruit product companies in China and worldwide.

With a further breakthrough in sales of our own brand products, the Group has transformed into a leading company in China's upgraded consumer goods industry. Through streamlined management, the company's core competitiveness and brand value have been enhanced. In future, the Group will take our own brand business segment as our core business and operation, and through more targeted brand strategising and planning, further consolidate the Group's position as market leader.

In the second half of the year, while the Group will market and sell our proprietary developed fat-free fruit ice product through online and offline channels, deploying different flavours into different sales channels, the Group will actively collect market feedback to further advance future marketing plans and overseas expansion plans. Furthermore, the Group is optimistic with regard to the functional beverage market in China and expects to launch a series of functional beverages in the fourth quarter of the year, and leverage on its strategic cooperation with Tai Wei Beverage Joint Stock Company Limited.

For brand promotion and existing processed food products, the Group will continue to conduct various forms of promotional activities, increase consumer education and interaction, and strengthen the "pulling effect" between regional distributors and terminal points of sale. The Group will also consider to increase incentives for regional distributors and its efforts in regional promotional advertising, including focused vehicle body advertisements, dynamic promotions and advertisements, displays, short film, self-media and short video clips.

In the area of M&A and strategic partnership strategies, while the Group was unable to further reach a purchase agreement with Homemade Harvey Operating LLC of the U.S., the Group remains in active pursuit of M&A and strategic partnership opportunities with international brands and renowned food businesses, as we strive to enhance the Group's brand recognition and extend our snack and beverage product line. At the same time, the Group intends to acquire a company focused in processing tropical fruits, in order to have greater flexibility in simultaneously processing fruits from the three different climates including, tropical, subtropical and temperate climates, as well as possessing fruit processing capability in both domestic and overseas locations in order to lower tariff risks arising from international trade disputes.

The Group's business has continuously expanded and increasingly grown in size over the recent years; yet the Group has never forgotten its fundamental principles with our constant vigilance in ensuring food safety, as we continue to serve the consumers at large with healthy, safe, tasty, and convenient processed foods.

FINANCIAL REVIEW

Revenue

During the six months ended 30 June 2018, our revenue increased to approximately RMB439.3 million from approximately RMB343.3 million for the six months ended 30 June 2017, representing an increase of approximately RMB96.0 million or 28.0%. The Group continued to sell its processed fruit products under its own brand and on an OEM basis, and engaged in trading of fresh fruits. The increase in revenue was mainly attributable to the substantial increase in the sales of our own brand products from approximately RMB138.7 million for the six months ended 30 June 2017 to approximately RMB209.5 million for the six months ended 30 June 2018, representing a growth of 51.0%, and increase in the OEM sales from approximately RMB156.3 million for the six months ended 30 June 2017 to approximately RMB181.4 million for the six months ended 30 June 2018, representing an increase of 16.1%.

Breakdown of the revenue by business segments for the six months ended 30 June 2018 and the comparative figures in 2017 are set out as follows:

	For the six months ended 30 June			
	2018	2017	Changes	
	RMB million	*RMB million*	*RMB million*	*%*
Revenue				
Own Brand Sales	**209.5**	138.7	70.8	51.0
OEM Sales	**181.4**	156.3	25.1	16.1
Fresh Fruits Sales and Others	**48.4**	48.3	0.1	0.2
Total	**439.3**	343.3	96.0	28.0

During the Review Period, processed fruit products sold under our own brand accounted for 47.7% (2017: 40.4%) of the total revenue. Revenue from our own brand products has become the largest segment and the amount in the first half of 2018 surpassed the revenue from the OEM products. The substantial increase was contributed by (i) the continuous increase in the number of new distributors, (ii) the growth of sales from most of the existing distributors, and (iii) the expansion of the online sales channels. The number of our distributors increased from 184 as at the date of last annual report to 204 as at 30 June 2018. The revenue through online channels continued to grow at 9.5% to RMB35.2 million in the first half of 2018 and represented 16.8% of the revenue from our own brand products (2017: 23.4%).

Revenue from processed fruit products sold on an OEM basis increased by 16.1% to approximately RMB181.4 million (2017: RMB156.3 million), continued to contribute a significant portion of the total revenue of the Group and represented 41.3% (2017: 45.5%) of the total revenue during the six months ended 30 June 2018. Our processed fruit products are sold to international well-known brand owners either by our Group directly to overseas brand owners and trading entities, or through third party trading entities in the PRC.

We also sold fresh fruit products and the revenue contributed by fresh fruit sales and others represented 11.0% of the total revenue for the six months ended 30 June 2018 (2017: 14.1%). Revenue from fresh fruit sales and others for the six months ended 30 June 2018 was broadly in line with the last period.

Gross profit and gross profit margin

	For the six months ended 30 June			
	2018	2017	Changes	
	RMB million	*RMB million*	*RMB million*	*%*
Gross profit				
Own Brand Sales	**64.8**	38.2	26.6	69.6
OEM Sales	**51.2**	47.4	3.8	8.0
Fresh Fruits Sales and others	**6.1**	7.2	(1.1)	(15.3)
Total gross profit	**122.1**	92.8	29.3	31.6

Gross profit for the six months ended 30 June 2018 increased to approximately RMB122.1 million from approximately RMB92.8 million for the six months ended 30 June 2017, representing a period-on-period increase of RMB29.3 million, or 31.6%. The increase was mainly driven by increase in revenue from both own brand and OEM sales and improvement of the gross profit margin on our own brand business. No provision for social insurance was released during the Review Period.

	For the six months ended 30 June	
	2018	2017
Gross profit margin		
Own Brand Sales	**30.9%**	27.5%
OEM Sales	**28.2%**	30.3%
Fresh Fruits Sales and others	**12.6%**	14.9%
Overall gross profit margin	**27.8%**	27.0%

Gross profit margin for the period increased from 27.0% to 27.8%. The overall increase in gross profit margin was mainly driven by the improvement of gross profit margin from the own brand sales, which was contributed by both increase in average price and reduction in average cost. The price level of some of the key components of the cost of sales has become more stable during the Review Period. With regard to gross margin on fresh fruit sales and others, if several others and miscellaneous adjustments are excluded, the gross margin on fresh fruit increased to 24.0% in the first half of 2018 (2017: 23.2%).

Selling and distribution expenses

Selling and distribution expenses mainly include the transportation costs, promotion expenses, advertising expenses, and salary expenses and related staff costs from sales and marketing department. For the six months ended 30 June 2018, the selling and distribution expenses amounted to approximately RMB6.5 million, representing a period-on-period decrease of approximately RMB3.8 million, or 37.0%. One-off brand building expenses in connection with offering free trial products which amounted to approximately RMB4.8 million were incurred in the last period. Without taking into account the one-off brand building expenses, the selling and distribution expenses increased by 17.8% from approximately RMB5.5 million to approximately RMB6.5 million and the increment is less than the growth of revenue during the Review Period.

General and administrative expenses

General and administrative expenses mainly include salary expenses and related staff costs for management and administrative departments, professional fees, depreciation, foreign exchange differences, and various taxes with regard to the use of land and buildings. The amount increased from RMB14.4 million for the six months ended 30 June 2017 to RMB19.3 million for the six months ended 30 June 2018. During the Review Period, a higher exchange loss of RMB2.3 million was reported (2017: RMB1.3 million) which was mainly arose from bank balances account, receivables, and convertible bonds denominated in HKD and USD, and the depreciation trend of HKD and USD against RMB during 2018. Moreover, depreciation expenses increased due to additions of land and buildings, and property, plant and equipment from Strong Won Investment Limited and its subsidiaries (the "Acquisition Group"). Without taking into accounts the exchange loss and the depreciation expenses, the general and administrative expenses increased moderately by 11.4% which was less than the growth of revenue in the same period.

Income tax expenses

Income tax expenses represent the PRC enterprise income tax of our PRC subsidiaries. For the six months ended 30 June 2018, our income tax expenses increased by RMB8.1 million, or approximately 51.7%, to RMB23.7 million from RMB15.7 million for the six months ended 30 June 2017. The increase in the income tax expenses was primarily due to increase in our PRC assessable income during the Review Period.

Net profit and net profit margin

For the six months ended 30 June 2018, net profit increased by approximately RMB15.2 million or 29.1% to approximately RMB67.5 million as compared to approximately RMB52.3 million for the six months ended 30 June 2017. The overall increase of net profit during the Review Period was driven by the growth of revenue from both the own brand and OEM business, the improvement of gross margin, and our effective control on the marketing, and general and administrative expenses which were partly offset by the increase in non-cash flow general and administrative expenses including depreciation and exchange loss, and rise in finance expenses.

The net profit margin for the Review Period were 15.4% (2017: 15.2%).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL RESOURCES

The Group principally meets the requirements on its working capital and other liquidity requirements through a combination of operating cash flows, capital contributions and bank and other borrowings.

Summary of major indicators in respect to the strength on the liquidity of the Group

	As at 30 June 2018	As at 31 December 2017
Gearing ratio *(%)*	**33.2%**	21.6%
Current ratio	**2.15**	2.67
Cash and cash equivalent *(RMB million)*	**411.4**	309.2
Net current assets *(RMB million)*	**336.5**	308.4
Quick ratio	**1.90**	2.26

The gearing ratio of the Group as at 30 June 2018 was 33.2% (31 December 2017: 21.6%). Gearing ratio was calculated based on total debts divided by total equity. The amount of total debts was calculated by aggregating the bank and other borrowings and convertible bonds.

The current ratio (calculated based on total current assets divided by total current liabilities) of the Group as at 30 June 2018 was 2.15 (31 December 2017: 2.67).

As at 30 June 2018, our cash and cash equivalents amounted to approximately RMB411.4 million (31 December 2017: RMB309.2 million). Our net current assets was approximately RMB336.5 million as at 30 June 2018, as compared to approximately RMB308.4 million as at 31 December 2017.

The quick ratio (calculated based on total currents assets minus inventory divided by total current liabilities) of the Group as at 30 June 2018 was 1.90 (31 December 2017: 2.26). With stable cash inflows generated in the daily business operation, plus the net proceeds raised from convertible bonds, the Group has sufficient financial resources for future expansion.

The Group manages its capital structure to maintain a balance between the equity and debts which makes adjustment to the capital structure in light of the changes in economic conditions affecting the Group.

The Group has not experienced any material difficulties or adverse effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 30 June 2018.

Capital structure

The Group's total equity and liabilities amounted to approximately RMB700.7 million and RMB337.7 million, respectively as at 30 June 2018 (31 December 2017: RMB653.9 million and RMB184.2 million).

Bank borrowing, convertible bonds and other borrowings, and finance costs

As at 30 June 2018, the total amount of an interest-bearing bank borrowing, convertible bonds and other borrowings from a leasing company of the Group was RMB232.7 million (31 December 2017: RMB141.2 million). During the Review Period, the Group issued convertible bonds with the principal amount of US$4 million in January 2018, and increased bank borrowings of approximately RMB38.9 million after the acquisition of the Acquisition Group.

The Group has consistently strived to explore suitable strategic merger and acquisition opportunities. In order to strengthen financial liquidity for future development plans and satisfy working capital requirements for expansion of our business, on 22 January 2018, the Group entered into subscription agreement for the issue of convertible bonds in the principal sum of US$4,000,000 to Guotai Junan Finance (Hong Kong) Limited ("Guotai Junan") at an initial conversion price of HK$1.58 (the conversion price represents premiums of approximately 26.4% (i.e. HK$1.25) of closing prices quoted on the Stock Exchange on the subscription dates). The net price for the issue agreed on 22 January 2018 was HK$1.53. The issue of the convertible bonds was completed on 29 January 2018. The funds raised were intended to be used as the Group's working capital, in order to expand and develop the own brand business and international business, including new products and product categories, industrial partnerships and strategic investments. With respect to the convertible bonds in the principal sum of US$4,000,000, a maximum of 19,620,253 Shares will be allotted and issued upon full conversion of the convertible bonds, representing approximately 2.01% of the existing issued share capital of the Company and approximately 1.97% of the issued share capital of the Company as enlarged by the allotment and issue of new Shares. If convertible bonds in the principal sum of US$4,000,000 are fully converted, the shareholding of (i) Wealthy Active Limited will be diluted from approximately 46.20% to approximately 45.29% and (ii) Wealthy Maker Limited will be diluted from approximately 11.25% to approximately 11.03%.

Based on the cash position of the Group, it is anticipated that, if none of the convertible bonds is converted, the Group will be able to meet its redemption obligations under both convertible bonds.

Finance costs of the Group increased from RMB0.6 million for the six months ended 30 June 2017 to RMB5.8 million for the six months ended 30 June 2018, representing an increase of approximately RMB5.2 million. Such increase was mainly attributable to (i) the one-off transaction costs for issuing convertible bonds amounting to RMB0.6 million and interest expenses on convertible bonds amounting to RMB2.5 million, (ii) increase in interest expenses of RMB0.8 million on bank borrowings, and (iii) decrease in capitalisation of borrowing costs of RMB1.9 million. The weighted effective interest rate of bank and other borrowings was 5.0% per annum as at 30 June 2018 (30 June 2017: 5.4% per annum).

Pledged assets

The Group pledged its land and buildings as collateral for the bank borrowings, and certain plant and equipment, office and computer equipment and furniture and fixtures for borrowings from a leasing company. As at 30 June 2018, the net book value of pledged land and buildings, and plant and equipment amounted to approximately RMB169.6 million (31 December 2017: RMB99.4 million).

Capital expenditure

Apart from the addition of non-current assets from the Acquisition Group, the Group has no material capital expenditure during the Review Period.

The non-current portion of the prepayment included a refundable balance of RMB42.0 million at the PRC government that was brought forward from last year in preparation for participating in the auction for a parcel of land close to our existing production facilities.

Interest rate risk

The Group has not used any derivatives to hedge against interest rate risk. The interest rate risk of the Group arises from the bank balances at floating interest rates, convertible bonds and the bank and other borrowings. The bank borrowing obtained at variable rates exposes the Group to cash flow interest rate risk which is partially offset by the bank balances held at variable rates. The convertible bonds and borrowings of the Group from a leasing company at fixed rates also expose the Group to fair value interest rate risk. During the Review Period, the bank and other borrowings of the Group at variable rates and fixed rates were all denominated in Renminbi or HKD. The convertible bonds of the Group at fixed interest rate were denominated in USD. The cash deposits placed with banks generate interest at the prevailing market interest rates.

Foreign currency exposure

The Group mainly operates in the PRC and most of the transactions are conducted in Renminbi. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to bank deposits, convertible bonds and trade receivables denominated in the United States dollar or Hong Kong dollar. Foreign exchange risk also arises from sales transactions in foreign currencies with overseas customers which have been mostly conducted in United States dollars. The monetary assets of the Group were denominated in Hong Kong dollars, Renminbi and United States dollars. The Group has not implemented any hedging measures to mitigate the aforesaid foreign exchange risk. The management will consider implementing hedging measures in case necessary.

Human resources

As at 30 June 2018, the number of employees of the Group was 788 (31 December 2017: 624). The increase in headcounts was mainly from production function that was attributable to the production expansion.

The total staff costs, including Directors' emoluments, amounted to approximately RMB19.0 million for the Review Period (2017: approximately RMB13.2 million).

The emoluments payable to the Directors are subject to their respective terms of engagement approved by the Remuneration Committee and the Nomination Committee, having regard to the operating results of the Group, the performance of individual Directors and comparable market statistics. The Group implements remuneration policy, bonus, share option scheme and share award scheme with reference to the performance of the Group and individual employees. The Group also provides insurances, medical benefits and retirement funds to employees so as to sustain the competitiveness of the Group.

Commitments and contingent liabilities

As at 30 June 2018, the Group did not have other material capital commitments. In addition, the Group did not have any material outstanding contingent liabilities. The capital commitments contracted for but not yet incurred and provided for as of 30 June 2018, amounted to approximately RMB11.6 million (31 December 2017: RMB17.4 million).

Material acquisitions and disposals

On 15 September 2017, the Group entered into a sale and purchase agreement to acquire the entire issued share capital of the Acquisition Group which is principally engaged in the production and sales of processed fruit products at the consideration of HK$55 million, including HK$33 million cash consideration and consideration shares with the value of HK$22 million. The Acquisition Group is based in the central part of the PRC and has its own production facilities. Through the acquisition, the Group can establish a production and distribution base in the central part of the PRC for further business expansion and development of subtropical processed fruit products. The acquisition was completed in January 2018.

The Group placed a refundable prepayments of RMB42 million with the PRC government in preparation for participating in the auction for a parcel of land close to our existing production facilities in 2015 and went on with the land acquisition for our No. 5 and No. 6 production lines during the Review Period. As of the date of this announcement, no further consideration has been paid.

During the six months ended 30 June 2018 and save as disclosed above, the Group did not have any other material acquisitions or disposals of subsidiaries or associated companies.

Principal risks and uncertainties

The Group is principally engaged in the sales and manufacturing of processed fruits products and trading of fresh fruits. It is exposed to a variety of key risks including credit risk, interest risk, liquidity risk, operational risk and market risk.

In the first half of 2018, the Group identified its critical risks through its risk management process. Following the continuous changes in the scale of business, scope of operation and external environment, the management believe that the three critical risks disclosed in the annual report 2017 still existed. For the effects of each category of risks on the Group, the Group has given a detailed description, and prepared corresponding alleviating/avoidance measures to manage such risks. Details are as follows:

Risk in respect of Product Quality and Food Safety

Product quality and food safety are crucial to the food processing industry and the Group has always attached great importance thereto. The risk in respect of product quality and food safety refers to the defect in products or failure of meeting relevant standards, or the risk in respect of raw materials, production process and other product-related food safety issues. Any incidents in connection with product quality and food safety may adversely affect the confidence of the public towards the products of the Group, which in turn affect the business and results of operation of the Group.

Risk Management Measures: The Group is committed to provision of healthy and safe products for customers in strict compliance with international standards and obtaining BRC(A+), IFS food (High), HALAL, QS, KOSHER and ISO22000 certificates for production facilities, quality control and management. The Group will continue to strengthen regulation over procurement of raw and auxiliary materials. Due to the establishment of an effective supplier evaluation mechanism, all the suppliers are reviewed regularly to reassure that they have a required level of corporate credit and product quality, thus ensuring the product quality and safety from the original source. Continuous efforts are made to provide intensified professional training for the staff of quality control, production management and R&D departments, and conduct test and examination for the raw and auxiliary materials to be warehoused. The finished products to be warehoused are subject to test by batches with stringent processes, so as to ensure safe and sanitary product production process. In addition, test and examination are conducted for the products before delivery to prevent the delivery of disqualified products. The Group has established and continuously improved the product tracing mechanism, and has a product quality emergency response plan in place.

Merger and Acquisition Risk

In order to satisfy the increasing orders, the Group may expand its production capacity and enrich its product category through acquiring other food processing and manufacturing enterprises in the next few years. Acquisitions may be subject to risks including unforeseeable litigations, conflict between the culture of acquisition target and the Group's culture, poor financial position of acquisition target, and excessive diversion of the Group's resources and management's concern in acquisition. Failure to acquire suitable targets may result in the Group not able to create synergies with these targets, which may in turn affect our operation and loss of expected profits.

Risk Management Measures: The Group will engage professionals in acquisition to conduct due diligence and assess the acquisition targets to reduce potential risks of acquisitions including litigation risks and financial risks. The Group may retain the original qualified management of the target group to ensure management stability of the target group as far as possible. Trainings will also be offered to all staff of the target group to gradually form a uniform group culture. The Group will adopt the optimised way of fund payment, and improve the internal audit function and the Group's anti-jobbery mechanism on a continued basis to put an end to jobbery.

Brand Publicity Risk

The Group will continue its strategy to develop the OEM and own brand business in parallel. Brand publicity risk refers to the risk of brand reputation's (including the extent or coverage of brand influence) failure of meeting expectations due to lack of brand promotion strategy or supporting resources. Failure in building up the positive image of our brand to the public may hinder our future growth and competitiveness, which may in turn affect the results of operation of the Group.

Risk Management Measures: The Group's existing registered brands include "果小懶", "Bingo Time" and "Tiantong Times". Ever since the last year, the Group has vigorously consolidated its own brand product business, and engaged professional public relation companies to handle the possible critical incidents prejudicial to the Group's image. Internally, the Group has also arranged personnel to collect adverse reports on the Group and submit the same to the management in a prompt manner, and the management will deal with the matter in accordance with the policies and processes of the Group. The Group enhances its brand reputation and influence through proactively attending the industry forum and other activities as organised by China Canned Food Industry Association. Moreover, the Group plans to engage professionals in brand building, and, with the assistance of the market brand consultant, and gradually increase investment in advertisement to promote brands and the Group's image by further leveraging on media resources.

The above are not intended to be an exhaustive list of all principal risks and uncertainties the Group is facing. These may change over time as new risks and uncertainties emerge and others cease to be a concern.

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

During the six months ended 30 June 2018, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

INTERIM DIVIDEND

The Board of Directors has resolved to pay an interim dividend for the six months ended 30 June 2018 of HK1.7 cents per share (30 June 2017: HK1.6 cents per share). The dividend will be payable on or around Thursday, 20 December 2018 to shareholders whose names appear in the Company's Register of Members at the close of business on Thursday, 29 November 2018, being the record date for determination of entitlement to the interim dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 27 November 2018 to Thursday, 29 November 2018, both days inclusive, during which no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Monday, 26 November 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance since the Listing Date.

Under code provision A.2.1 of the CG Code as set out in Appendix 14 of the Listing Rules, the responsibilities between the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yang Ziyuan is our chief executive officer, and he also acts as the chairman of our Board as he has considerable experience in the fruit processing industry. The Board believes that vesting the roles of both the chairman of our Board and the chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group. Save for the aforesaid, the Board is of the view that the Company has complied with the code provisions as set out in the CG Code during the Review Period and up to the date of this announcement.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard as set out in the Model Code. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the requirements of the Model Code during the Review Period and up to the date of this announcement.

AUDIT COMMITTEE

The Company has established an Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee is to serve as a focal point for communication between other directors, the external auditors, and the management as their duties relate to financial and other reporting, internal controls and the audits; and to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, to satisfy themselves as to the effectiveness of the Company's internal controls and as to the efficiency of the audits. The primary duties of the Audit Committee is (i) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal and (ii) to monitor the integrity of financial statements of the Company and the Company's annual report and accounts and half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained therein. The Audit Committee comprises three independent non-executive directors, namely Mr. Tsang Yuen Wai (Chairman), Mr. Liang Zhongkang and Ms. Hui Yung Yung Janet.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 have been reviewed by the Audit Committee and the Group's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement will be published on the websites of the Stock Exchange and the Company (http://www.tianyuninternational.com). The interim report for the six months ended 30 June 2018 containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to all our staff for their dedication and contribution to the Group. In addition, I would like to thank all our shareholders and investors for their support and our customers for their patronage.

By Order of the Board
Tianyun International Holdings Limited
Yang Ziyuan
Chairman and Chief Executive Officer

Hong Kong, 28 August 2018

As at the date of this announcement, the Board of the Company comprises (i) Mr. Yang Ziyuan and Mr. Sun Xingyu as the executive Directors; (ii) Ms. Chu Yinghong and Mr. Wong Yim Pan as the non-executive Directors; and (iii) Mr. Liang Zhongkang, Mr. Tsang Yuen Wai and Ms. Hui Yung Yung Janet as the independent non-executive Directors.