

Tianyun International Holdings Limited

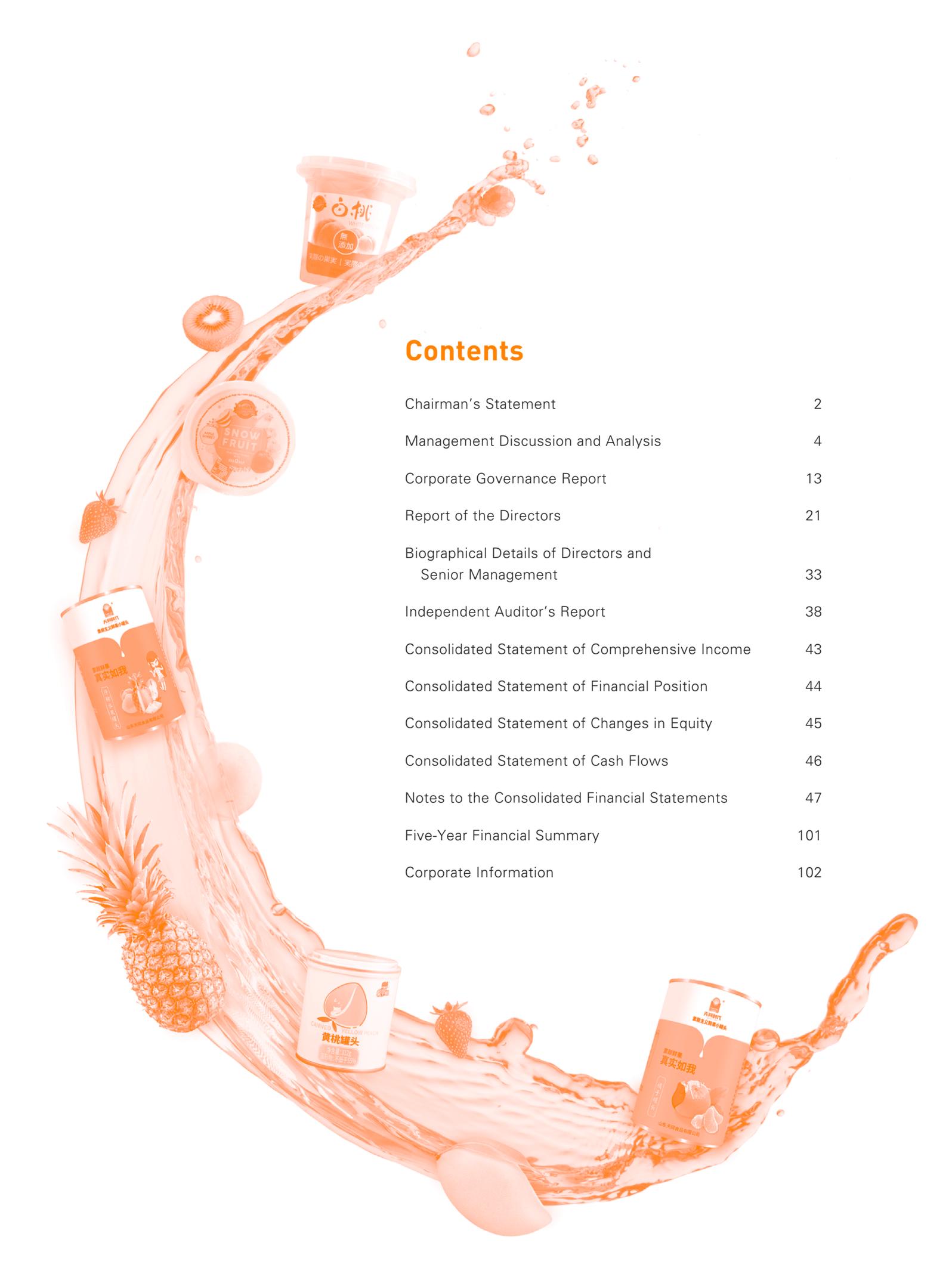
天韻國際控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 6836.HK



Annual Report 2019



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Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Tianyun International Holdings Limited (the "Company" or "Tianyun International") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present our annual report for the year ended 31 December 2019 (the "Year under Review").

Sustained global economic slowdown and turbulent China-US trade friction in 2019 have brought uncertainty to the general economic environment. With the completion of the first stage of trade negotiations between China and the US in January this year, there has been some improvement in the global economic sentiment. Domestically, a series of policy measures aimed at stimulating consumption has been launched to allow China's economy to operate in a reasonable band. Through tireless efforts of the Group's entire staff, working and resolving difficulties together as one team, a management team in pursuance of excellence, and strong operational execution and effective overall development strategy, the Group made full use of market opportunities in 2019, achieving steady growth in results, remarkable accomplishment in expanding production capacity, developing business and internal improvements. Annual revenue exceeded the RMB1 billion threshold for the first time. The domestic market share of our own brand products has continuously increased, and revenue has sustained consecutive double-digit growth for numerous years. Among others, the Group has achieved positive development in areas such as brand reputation, new product types and industrial research and development collaboration, strategic partnership, future development strategy and corporate social responsibility, contributing to a solid foundation for the Group's future development.

Under the momentum of rapid urbanization across China, consumer demands for safe, convenient and healthy food continue to expand. According to a recent analysis report on China's processed fruits and vegetables market industry published by Euromonitor International, a global institution on the field of market data and research, Tianyun International has become a leading enterprise in the industry, while the industry market size of 2019 has grown by 8% year-on-year to RMB12 billion, and its expected growth is higher than year-on-year growth of production volume, reflecting a 3% increase from the average unit price of processed fruits and vegetables. The report's market analysis also validates the Group's operating strategy for its own brand business in recent years, leading the consumption trend in the snack food-related market. For instance, long before it was reported that products of portable small packaging could be expected to be a hit in the market, the Group has already been producing such products in trendy portable small packaging for young consumers.

Based on our mission to "produce healthy and safe food, make happy and blissful lives", we have been relentlessly developing our mid and long-term competitive advantages in recent years. We have maintained efforts in developing and optimising product types and packaging to drive product enhancement, launching products with new packaging and fruit flavours, satisfying the various needs of consumers with a rich and a diverse product portfolio, and increase product awareness among various target consumer groups through sustained efforts in expanding multiple sales channels. During the Year Under Review, the Group has benefited from the gradual growth of reputation for our own brands, and drove up sales numbers on several e-commerce platforms such as TMall, WeChat Mcommerce and Pinduoduo. To engage young consumers who are avid users of streaming platforms, we have increased product advertising on certain popular streaming platforms such as TikTok, resulting in, among others, a notable increase in sales of "Fruit Sorbet" (霜淇淋), a proprietary pure fruit snack product from own research and development and production.

Chairman's Statement

As one of the food enterprises with the most complete and comprehensive set of quality certifications, the Group is committed to providing customers with healthy and safe products and has always been dedicated to following stringent international production standards, having been accredited with BRC(A), IFS Food (High), HALAL, QS, KOSHER, BSCI, ISO22000 and passed the internal food production standard reviews and audits of several European and US supermarket chains in respect of our production facilities, quality control and management. Meanwhile, we continued to supply our products to domestic and international customers with "Equal production line; Equal standard; Equal quality" standards. During the past year, the Group was awarded "40th Anniversary of the Reform and Opening Up of the Country – China Canned Food Brand Award", "2019 China Canned Food Leading Brand" and "China Canned Food Leading Enterprise" by China Canned Food Industry Association. The Group also made the Most Valuable Chinese Brands for a third consecutive year and exceeded the RMB1 billion threshold in assessed brand value for the first time and was also elected as a corporate member of the 2nd Council of the China Council for Brand Development. The various quality accreditations and brand accolades we have earned show the high level of market recognition of the Group's outstanding brand value and influence, and also reflect the steady growth of market share and consumer recognition for the Group's own brand products.

Looking forward, the Group will continue to optimise our business operations and enhance effectiveness of sustainable development, while continuing to honour our primary aim of providing healthy, delicious, safe and convenient fruit products to consumers. We will also continue to look at corporate social responsibility matters and commit ourselves to charitable causes, caring for the disadvantaged elderly and children within our community. We continue to respond enthusiastically to the national poverty alleviation strategy, assisting rural villages in their fight against poverty, fulfilling our social responsibility as a sustainable development corporation. Furthermore, the Group has been closely monitoring the developments of the outbreak of coronavirus disease (COVID-19) and has organised our companies and employees to contribute to relief efforts. We have donated approximately 12 tonnes of canned fruits to the Red Cross of the Linyi City Hedong District and Dangyang City to encourage the frontline medical workers to fight against the epidemic. Standing together as one in this time, we are sure that we will survive this outbreak.

During the past year, the Group has achieved several development milestones, which would not have been possible without the strong support of our business partners, the efforts of our entire staff team, and the trust placed on us by consumers at large. On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, business partners, customers and consumers for their support and trust. As chairman and chief executive officer of the Group, I, together with our management team, will continue to serve faithfully in our positions, survive in the face of difficulties, recreate our successes, and continue to bring fresh dynamics to drive the Group's future growth and sustainable development, take the Company to greater heights, and bring maximum returns to our shareholders.

Sincerely,

Yang Ziyuan

Chairman and Chief Executive Officer

17 April 2020

Management Discussion and Analysis

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

As one of the food enterprises with the most complete set of quality certifications, the Group is committed to providing customers with healthy and safe products and has always been dedicated to following stringent international production standards, having been accredited with BRC(A), IFS Food (High), FDA, HALAL, SC, KOSHER, BSCI, ISO22000 and passed the internal food production standard reviews and audits of several European and US supermarket chains in respect of our production facilities, quality control and management. Meanwhile, the Group has been supplying products of equivalent quality to domestic and international markets as a “Equal production line; Equal standard; Equal quality” food production and export enterprise. Since 2016, the Group’s own brands of quality processed food products have continuously obtained 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 place the “Zero Added Preservatives” label on its products.

BUSINESS REVIEW

In 2019, the Group continued to receive multiple accolades, including the “40th Anniversary of the Reform and Opening Up of the Country - China Canned Food Brand Award”, “2019 China Canned Food Leading Brand” and “China Canned Food Leading Enterprise” by the China Canned Food Industry Association. The Group also made the Most Valuable Chinese Brands for the third consecutive year and surpassed the RMB1 billion threshold in assessed brand value for the first time and was also elected as a corporate member of the 2nd Council of the China Council for Brand Development. All these show the high level of market recognition for the Group’s outstanding brand value and influence, and also reflect the steady growth of market share and consumer recognition for the Group’s own brand products.

According to a recent analysis report on China’s processed fruits and vegetables market industry published by Euromonitor International, a global institution on the field of market data and research, Tianyun International is a leading enterprise in the industry, while the industry market size of 2019 has grown by 8% year-on-year to RMB12 billion.

For the Year Under Review, the Group’s annual revenue exceeded the RMB1 billion threshold for the first time. Revenue, gross profit and net profit grew by 13.0%, 12.4%, and 14.6%, to RMB1,062.8 million, RMB296.0 million, and RMB169.1 million respectively. Business of our brand sustained rapid growth, with segment revenue increasing by 31.0% to RMB631.8 million, representing 59.4% of the Group’s total revenue, proving the success of the Group’s business strategy of positioning itself as a food consumption goods enterprise led by the Group’s own brands. In view of the Company’s positive results and sufficient cash flow, the Board recommends a final dividend of HK\$0.03 per share for 2019, representing a growth of 11.1% compared to 2018.

Own Brand and OEM Business

Revenue for products under the Group’s own brands, including, “繽果時代 (Bingo Times)”, “天同時代 (Tiantong Times)” and “果小懶 (fruit zz)” have maintained steady growth during the Year Under Review. Besides continuing active participation in various international and domestic fairs and exhibitions, the Group has been endeavouring to expand into strong sales channels such as regional distributors and large chain supermarkets, enabling well-managed development of the sales network of our own brand and expanding product coverage to 27 provinces, direct municipalities and autonomous regions across the country, as well as 306 exclusive regional distributors,

Management Discussion and Analysis

covering renowned chain supermarkets including Auchan, RT-MART, CR Vanguard, AEON, Beijing Jingkelong and Jinan Hualian. The Group successfully enhanced consumer interaction and increased sales through organising various promotional activities. At the same time, the Group expended extra efforts in revolutionising product flavours and packaging with the launch of several small package products and innovative fruit sorbet, bringing different product experiences to consumers. Through diversified marketing and promotional efforts, the Group and its products built up an established brand image and stand firmly at the forefront of leading healthy food enterprises.

As the online sales of physical goods in the PRC has grown in recent years, the Group has continued to optimize the operation of its e-commerce platforms, in order to capture the opportunity presented by the rapid growth of online retail, satisfy the demands of different consumer groups of the online channel, and distinguish itself among fierce industrial competition. During the Year Under Review, the Group conducted a comprehensive upgrade of product packaging, labelling and cartons as well as an update to its online shop website. We implemented various online sales and brand strategies including offering rewards, increasing product types and fruit flavours, which enhanced the online image of our own brand. The Group also responded to consumers' preferences of online shopping and streaming platforms, promoted products and built brand image on popular live streaming platforms such as TikTok, and successfully increased public access to our online e-commerce shops, which drove and increased product sales. In this respect, the Group has achieved a satisfying performance across online sales platforms from TMall, Wechat Commerce to Pinduoduo.

Moreover, the Group's OEM business maintained stable growth with seamless cooperation with renowned international food brands and continued to expand our customer base. The Group's OEM processed food products are eventually exported to a relatively dispersed range of regions, allowing us to effectively diversify risks associated with an overly concentrated customer base. As the global market's appetite for processed fruit products made in China remains massive, the Group will continue to explore more business partnership opportunities in Japan and seek new and quality clients in other markets, such as Canada, Europe, Australia and New Zealand, in order to drive sustainable development in our OEM business.

Trading of Fresh Fruit

For years, the Group has selected and resold a small portion of fresh fruit to domestic fresh fruit wholesalers. A renowned data analytics consultant and Alibaba Group Holding Limited jointly published the 2019 Online Fresh Food Consumption Development Trends Report, predicting that the fresh food market size will grow to RMB1 trillion by 2025. With online shopping becoming part of daily life, there is massive potential in the online fresh food market. The Group closely monitors the development of China's fresh fruit market, actively seeking partners that have both domestic and international fresh fruit sales channels and reputable Chinese brands associated with fresh fruits, in order to promote more sales, exchange and processing of fresh fruits from different origins of both domestic and overseas market, and bring a richer and more diversified variety of quality fruits and processed fruits to the consumers at large.

Production Capacity, Research and Development

The Group has continued to improve production facilities during the Year Under Review, in order to raise our level of automation and production efficiency. Currently, the Group has completed the land acquisition for the No. 5 and No. 6 production workshops in Shandong, and preparation work is under way and various construction projects are expected to commence as soon as possible and complete in the first half of 2021. During the Year Under Review, Tiantong Food (Yichang) Ltd. ("Yichang Tiantong") has continued to transform its facilities and enhance its capacity, effectively increasing the Group's production capacity for new products and existing processed fruit products, while also facilitating the Group's arrangements with warehousing and transportation of its own brand products in Central China as well as developing subtropical fruit products. During the Year Under Review, Yichang Tiantong carried out production smoothly and has successfully increased production capacity and fulfilled its production goals in 2019 during its production peak season in the second half of 2019.

Management Discussion and Analysis

The Group is of the view that innovation is fundamental to corporate development. Only through research and innovation can an enterprise continuously maintain dynamics in development and thus achieving better and faster development. The Group always upgrades and improves its production technology and products to achieve healthy and long-term development. Being committed to its mission of food safety, the Group has actively invested in research and development of new products with its proprietary and core technology to satisfy consumers at large for their desire of new tastes and demands for diverse fruit products. During the Year Under Review, the Group was accredited as the 8th batch of the municipal level “One Technique for One Enterprise” R&D centre (第八批市級「一企一技術」研發中心) by the municipal government of Linyi City of Shandong Province. This is a significant recognition on the Group’s capability on its independent innovation.

Furthermore, the Group has gradually achieved its operating goal of deseasonalisation. During the Year Under Review, the Group successfully utilised new modern cold storage technology to extend fruit storage period and stretching a longer seasonal cycle for fruit processing. The Group also launched more types of processed fruit products, such as loquat, mango, and grape, to satisfy consumers at large. Additionally, the Group successfully developed a proprietary formula for a functional sport drink and obtained the relevant production permit. The Group has entered into the final stage of development of new products such as fruit tea and fruit-flavoured bubble tea. The Group will commence production of and launch various special beverage products depending on market conditions.

Merger and Acquisition and Strategic Partnership

During the Year Under Review, the Group has also actively built on its strength through merger and acquisition and implementing strategic measures. Besides the signing of a memorandum of partnership with Sichuan Development Holding Ltd (四川發展(控股)有限責任公司, “SDH”) at the beginning of 2019 to leverage both parties’ strengths and deepen cooperation in the agriculture field, the Group established a joint venture company in Sichuan Province of PRC with Sichuan Yizhan Enterprise Co., Ltd., (四川怡展實業有限公司, “Sichuan Yizhan”), a subsidiary of Sichuan Development International Holding Company Ltd (“SDIH”), to jointly develop a supply chain for processed agricultural and food products as well as a base for supply of raw materials that comply with international standards. In June 2019, the Group, SDIH and SC Foods Co., Ltd. (“SC Foods”), a Japanese food enterprise, signed a tripartite “memorandum of strategic cooperation”, intending to develop strategic cooperation in respect of the international market, which includes assisting the Group to implement and operate the food processing and international trading centre project. The Group is confident that a partnership positioning in a precise way on the domestic and international levels will provide greater drive for long-term business development and develop fruit products such as freeze-dried, fruit conserve, jelly, fruit sorbet and fresh fruits etc. with regional characteristics. During the Year Under Review, the Group has actively commenced vital preliminary work such as land acquisition, environmental, safety, filing, and design works etc. for its Sichuan project.

Outlook

In 2019, we maintained robust sales growth in our target markets with steady expansion for both online and offline distribution networks. Meanwhile, various financial and operation indices also show stable positive development, giving us confidence in the Group’s mid and long-term prospects. Looking forward, under a strong and stable business foundation, together with the smooth and gradual progress in the agriculture collaboration project with Sichuan Development, and expected increase in overall capacity of the Group, we will continue to integrate merger and acquisition and inherent growth strategies to consolidate our position as market leader. Having entered into the strategic cooperation with SC Foods from Japan in mid-2019, we will continue to promote quality agricultural products and related processed food products to the global market.

Management Discussion and Analysis

Since the Group established its strategic partnership with a renowned beverage enterprise in November 2019, we will develop special and sport beverage products and construct relevant facilities and production lines. The Group's products in the future will expand from the current focus on various processed fruit and related products to the beverage field, which is in line with our committed deseasonalisation strategy in recent years. As for new packaging, it is expected that a new form of Tetra Pak packaging that is more environmentally friendly, convenient and oriented towards the PRC market will be launched along with the new project in Shandong with regard to No. 5 and No.6 production workshops. The new packaging is expected to lead to significant increase in product types and specifications, and raise volume of production orders.

In the future, the management will focus on the "fruit processing" industrial chain, continue to actively procure strategic partnership, merger and acquisition and investment opportunities with subtropical fruit businesses and international food and beverage brands, improve comprehensively the Group's operation efficiency, intensify deseasonalisation, increase product types, enhance and upgrade product packaging and design, optimise and expand our distributor network, strengthen brand competitiveness, and implement online and offline advertising and promotion for our products with different positioning, in order to boost the Group's revenue and profitability, and ensure our success.

Please refer to note 38 of the consolidated financial statements for the subsequent event regarding COVID-19 outbreak.

FINANCIAL REVIEW

Revenue

During the Year Under Review, our revenue increased to approximately RMB1,062.8 million from approximately RMB940.5 million for the year ended 31 December 2018, representing an increase of approximately RMB122.3 million or 13.0%. 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 increase in the sales of our own brand products of approximately RMB149.5 million during the Year Under Review, and was partially offset by a moderate decrease in the OEM sales, and fresh fruit sales and others of approximately RMB23.8 million and RMB3.4 million respectively.

Breakdown of the revenue by business segments for the year ended 31 December 2019 and the comparative audited figures in 2018 is set out as follows:

	For the year ended		Changes	%
	2019	2018		
	RMB million	RMB million	RMB million	
Revenue				
Own Brand Sales	631.8	482.3	149.5	31.0
OEM Sales	338.5	362.3	(23.8)	(6.6)
Fresh Fruits Sales and Others	92.5	95.9	(3.4)	(3.5)
Total	1,062.8	940.5	122.3	13.0

Management Discussion and Analysis

During the Year Under Review, processed fruit products sold under our own brand accounted for 59.4% (2018: 51.3%) of the total revenue and represented the largest business segment of the Group. Own brand sales increased from approximately RMB482.3 million for the year ended 31 December 2018 to approximately RMB631.8 million for the year ended 31 December 2019, representing a growth of 31.0%. The increase was mainly contributed by the continuous increase in the number of exclusive regional distributors and the growing sales from the distributors in most of the key provinces in the PRC. The number of our exclusive distributors increased from 210 as at the date of annual report for the year ended 31 December 2018 to 306 as at the date of this report. During the Year Under Review, the revenue from own brand sales through online channels increased by approximately RMB1.9 million or 2.6% to RMB73.7 million (2018: RMB71.8 million).

Revenue from processed fruit products sold on an OEM basis continued to contribute a significant portion of the total revenue of the Group and represented 31.8% (2018: 38.5%) of the total revenue during the Year Under Review. Our processed fruit products are mainly sold to international and well-known brand owners either by our Group directly to overseas brand owners and trading entities, or through local import and export entities based in the PRC. During the Year Under Review, revenue from OEM sales moderately decreased by RMB23.8 million or 6.6% from approximately RMB362.3 million for the year ended 31 December 2018 to approximately RMB338.5 million for the year ended 31 December 2019.

We also sold fresh fruit and revenue contributed by fresh fruit sales and others represented 8.7% of the total revenue for the year ended 31 December 2019 (2018: 10.2%). Revenue from fresh fruit sales and others during the Year Under Review slightly decreased by RMB3.4 million or 3.5% to approximately RMB92.5 million. Revenue from fresh fruit sales during the Year Under Review was broadly the same as in 2018 and the decrease was mainly attributable to the drop in the revenue from frozen fruit sales and other miscellaneous items.

Other income, and other losses, net

During the Year Under Review, other income mainly represented government subsidies and rental income from investment properties. Other losses, net represented the fair value change on investment properties and contingent consideration payable with regard to the acquisition of Yichang Tiantong.

Gross profit and gross profit margin

	For the year ended		Changes	
	31 December			
	2019	2018		
	RMB million	RMB million	RMB million	%
Gross profit				
Own Brand Sales	171.4	148.4	23.0	15.5
OEM Sales	109.0	104.1	4.9	4.7
Fresh Fruits Sales and others	15.6	10.8	4.8	4.4
Total gross profit	296.0	263.3	32.7	12.4

Gross profit for the year ended 31 December 2019 increased to approximately RMB296.0 million from approximately RMB263.3 million for the year ended 31 December 2018, representing a year-on-year increase of RMB32.7 million, or 12.4%. The increase was mainly driven by increase in revenue from own brand sales and reduction in cost of sales from OEM sales and fresh fruit sales.

Management Discussion and Analysis

	For the year ended	
	31 December 2019	2018
Gross profit margin		
Own Brand Sales	27.1%	30.8%
OEM Sales	32.2%	28.7%
Fresh Fruits Sales and others	16.9%	11.3%
Overall gross profit margin	27.9%	28.0%

During the Year Under Review, the gross profit margin was 27.9% which was broadly the same as in 2018.

The gross profit margin from the OEM sales improved mainly because the extent of increase in the average selling price of OEM products was generally higher than the extent of increase in average production cost during the Year Under Review. The drop in the gross profit margin of own brand sales was mainly due to the change of the sales of the processed fruit product mix and our strategy to keep a similar level of average selling price during the Year Under Review. We also provided more incentives to the distributors in order to encourage distributors to organize more promotion activities in their respective exclusive distribution regions. With regard to gross profit margin of fresh fruit sales and others, if certain other and miscellaneous adjustments are excluded, the gross profit margin of fresh fruit sales would increase slightly to 24.8% for the year ended 31 December 2019 (2018: 24.2%).

Selling and distribution expenses

Selling and distribution expenses mainly include the transportation and delivery costs, promotion and advertising expenses, and salary and related staff costs from sales and marketing department. For the year ended 31 December 2019, the selling and distribution expenses increased from approximately RMB14.3 million for the year ended 31 December 2018 to approximately RMB18.3 million, representing a year-on-year increase of approximately RMB4.0 million, or 28.0%. The increase was mainly attributable to revenue growth, and more promotion and marketing activities with distributors for our own brand business during the Year Under Review.

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 RMB34.9 million for the year ended 31 December 2018 to RMB46.0 million for the year ended 31 December 2019, representing a year-on-year increase of approximately RMB11.1 million, or 31.8%.

Without taking into accounts the effect of exchange difference and various one-off or non-recurring items, including bonus reclassification, allowances, disposal of non-current assets and professional fees during the Year Under Review, general and administrative expenses increased by approximately 11.2% or RMB3.8 million for the year ended 31 December 2019. The increase was mainly attributable to the increase in research and development costs, depreciation and general rise in salary expenses.

Income tax expenses

Income tax expenses represent mainly the PRC enterprise income tax payable by our PRC subsidiaries. For the year ended 31 December 2019, our income tax expenses increased by RMB3.1 million, or approximately 5.9%, to RMB56.0 million from RMB52.9 million for the year ended 31 December 2018. The increase in the income tax expenses was primarily due to increase in our PRC assessable income during the Year Under Review.

Management Discussion and Analysis

Net profit and net profit margin

For the year ended 31 December 2019, net profit increased by approximately RMB21.6 million or 14.6% to approximately RMB169.1 million as compared to approximately RMB147.5 million for the year ended 31 December 2018. The overall increase of net profit during the Year Under Review was mainly due to the growth of revenue and gross profit, and improvement of net finance costs and income tax expenses. The net profit margin for the Year Under Review was 15.9% (2018: 15.7%).

Liquidity, financial resources and capital resources

The Group principally meets the requirements for 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 of the strength on the liquidity of the Group

	As at 31 December 2019	As at 31 December 2018
Gearing ratio (%)	22.8%	20.6%
Current ratio	2.65	2.39
Cash and cash equivalent (RMB million)	472.0	464.6
Net current assets (RMB million)	475.6	389.6
Quick ratio	2.30	2.05

The gearing ratio of the Group as at 31 December 2019 was 22.8% (31 December 2018: 20.6%). 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 (excluding the amount due to a substantial shareholder).

The current ratio (calculated based on total current assets divided by total current liabilities) of the Group as at 31 December 2019 was 2.65 (31 December 2018: 2.39).

As at 31 December 2019, our cash and cash equivalents amounted to approximately RMB472.0 million (31 December 2018: RMB464.6 million). Our net current assets was approximately RMB475.6 million as at 31 December 2019, as compared to approximately RMB389.6 million as at 31 December 2018.

The quick ratio (calculated based on total current assets (excluding inventory) divided by total current liabilities) of the Group as at 31 December 2019 was 2.30 (31 December 2018: 2.05). With stable cash inflows generated in the daily business operation, the Group has sufficient financial resources for potential future expansion.

The Group manages its capital structure by maintaining a balance between the equity and debts. The Group makes adjustments to the capital structure from time to time 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 Year Under Review.

Management Discussion and Analysis

Capital structure

The Group's total equity and liabilities amounted to approximately RMB894.1 million and RMB297.7 million, respectively as at 31 December 2019 (31 December 2018: RMB766.1 million and RMB323.8 million).

Bank and other borrowings, and net finance costs

As at 31 December 2019, the total amount of interest-bearing bank and other borrowings was approximately RMB203.4 million (31 December 2018: RMB157.8 million). During the Year Under Review, the Group increased net bank borrowings of approximately RMB45.6 million.

Net finance costs of the Group decreased from RMB12.0 million for the year ended 31 December 2018 to RMB9.0 million for the year ended 31 December 2019, representing a decrease of approximately RMB3.0 million or 25.0%. Such decrease was mainly attributable to the increase in interest income and the full repayment of the outstanding principal under the convertible bonds and the interest accrued in the last quarter of 2018 and no interest expenses related to convertible bonds was incurred in 2019. The extent of decrease of interest expenses was offset by the increase in bank borrowings and interest paid to a substantial shareholder for a loan of one-year term during the Year Under Review.

Pledged assets

The Group pledged its right-of-use assets (2018: leasehold land and land use rights) and buildings as collateral for the bank borrowings. As at 31 December 2019, the net book value of pledged right-of-use assets and buildings amounted to approximately RMB138.0 million (31 December 2018: land and buildings RMB143.6 million).

Capital expenditure

During the Year Under Review, we made several improvement works and built some key environmental protection facilities for the sustainable development of own business. Our total capital expenditure amounted to RMB45.4 million (2018: RMB10.7 million). Regarding our production base in Shandong province, approximately RMB13.7 million were incurred to improve our production workshops, renovate our new office in the integrated development centre and add new plants and equipment. We also acquired the land use rights of a parcel of land that is adjacent to our existing production base in Shandong province with a total cost of approximately RMB15.6 million. The prepayment under non-current assets during the Year Under Review was related to the prepayment for the planning and construction works for the new No. 5 and No. 6 workshops in Shandong.

With regard to our production base in Hubei province, additional expenditure of approximately RMB30.4 million was incurred in building a new sewage treatment system, improving the production workshop and adding new plants and equipment.

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, 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 borrowings of the Group at fixed interest rates also expose the Group to fair value interest rate risk. During the Year Under Review, the bank and other borrowings of the Group at variable rates and fixed rates were all denominated in Renminbi or HKD. The cash deposits placed with banks generate interest at the prevailing market interest rate.

Management Discussion and Analysis

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, bank and other loans and trade receivables denominated in the United States dollars or Hong Kong dollars. 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 monitor its foreign exchange exposure from time to time and will consider implementing hedging measures if necessary.

Human resources

As at 31 December 2019, the number of employees of the Group was 722 (31 December 2018: 736). The total staff costs, including Directors' emoluments, amounted to approximately RMB61.8 million for the Year Under Review (31 December 2018: approximately RMB49.4 million). The emoluments payable to the Directors are subject to their respective terms of engagement approved by the Remuneration 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 contribute to retirement funds for employees so as to sustain the competitiveness of the Group.

Commitments and contingent liabilities

As at 31 December 2019, 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 31 December 2019, amounted to approximately RMB49.3 million (31 December 2018: RMB12.8 million).

Material acquisitions and disposals

On 11 February 2019, the Company and Sichuan Yizhan, a subsidiary of a substantial shareholder of the Company, SDIH, entered into a conditional joint investment agreement, pursuant to which the Company and Sichuan Yizhan agreed to establish a joint venture company in Sichuan province, the PRC, to fully utilize the respective strengths of each party, geographical advantages of Sichuan province and policy advantage of the "Belt and Road Initiative", to collaborate in developing a supply chain for processed agricultural and food products and a base for supply of raw materials that complies with international standards. According to the business plan, the Company shall invest RMB140 million and Sichuan Yizhan shall invest RMB60 million in the registered capital of the joint venture company. The joint venture company was subsequently established on 30 July 2019 with a registered capital of RMB200 million. The said capital has not been paid up as at the date of this report.

The acquisition of the land use rights adjacent to our Shandong production base in Shandong province for establishing the No. 5 and No. 6 production workshops was completed in the last quarter of 2019.

During the year ended 31 December 2019 and up to the date of this report, the Group did not have any other material acquisitions or disposals of subsidiaries or associated companies.

Corporate Governance Report

The Company is committed to maintaining good corporate governance standard and procedures to ensure the sound internal control, integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

Corporate Governance Practice

The Company has adopted the code provisions set out in the CG Code as set out in Appendix 14 to the Listing Rules. During the Year under Review, the Company has complied with the relevant provisions of the CG Code, save and except Code provision A.2.1 of the CG Code, details of which are set out under the sub-paragraph headed "Chairman and Chief Executive Officer" below.

Directors' Securities Transactions

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code under in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code during the Year under Review.

Board of Directors ("Board")

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. Each Director has a fiduciary duty and statutory responsibilities towards the Company. Each Director is aware of his collective and individual responsibilities to all shareholders and that he should give sufficient time and attention to the affairs of the Company. Management was delegated with authorities and responsibilities by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out below.

The composition of the Board and the relevant information for the Year under Review are set out as follows:

Director	Position	Term of office
Mr. Yang Ziyuan	Executive Director, Chairman and Chief Executive Officer	From 16 June 2018 to 15 June 2021
Mr. Sun Xingyu	Executive Director	From 16 June 2018 to 15 June 2021
Mr. Wang Hu	Executive Director	From 22 October 2018 to 21 October 2021
Ms. Chu Yinghong	Non-executive Director	From 16 June 2018 to 15 June 2021
Mr. Wong Yim Pan	Non-executive Director	From 16 June 2018 to 15 June 2021
Mr. Liu Zhumeng	Non-executive Director	From 22 October 2018 to 21 October 2021
Mr. Liang Zhongkang	Independent Non-executive Director	From 16 June 2018 to 15 June 2021
Mr. Tsang Yuen Wai	Independent Non-executive Director	From 16 June 2018 to 11 November 2019
Ms. Hui Yung Yung Janet	Independent Non-executive Director	From 16 June 2018 to 27 June 2019
Prof. Lu Yuanping	Independent Non-executive Director	From 27 June 2019 to 26 June 2022
Mr. O'Yang Wiley	Independent Non-executive Director	From 11 November 2019 to 10 November 2022

Except that Ms. Chu Yinghong is the spouse of Mr. Yang Ziyuan, the Board members have no financial, business, family or other material relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board. The biographical information of the Directors are set out on pages 33 to 37 under the section headed "Biographical Details of Directors and Senior Management".

Corporate Governance Report

The Board decides on corporate strategies, approves overall business plans and evaluates the Group's financial performance and management. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating performance, the implementation of risk management and internal controls procedures, and the compliance with relevant statutory requirements and other rules and regulations.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code as set out in Appendix 14 to 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 is our chief executive officer, and he is also the chairman of our Board as he has considerable expertise, experience and network in the fruit processing industry. The Board believes that vesting the roles of both the chairman of our Board and the chief executive officer of the Group 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.

Besides, all major decisions have been made in consultation with members of the Board and appropriate Board committees. In addition, Directors are encouraged to participate actively in all Board and Board committee meetings of which they are members, and the Chairman ensures that all issues raised are properly briefed and adequate time is available for discussion at the Board meetings. The Board is therefore of the view that there are adequate balance of power and safeguards in place. Nevertheless, the Board will continue to regularly monitor and review the Group's current structure and to make necessary changes at an appropriate time.

Independent Non-executive Directors

All the three independent non-executive Directors, which represent not less than one-third of the Board, are persons of high caliber, with academic and professional qualifications in the fields of accounting, legal, fruit processing, and food and beverage industries. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director has given a confirmation of his/her independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules. The independent non-executive Directors were appointed for a term of three years commencing from 16 June 2018, 27 June 2019 and 11 November 2019 respectively and are subject to retirement by rotation in accordance with the Articles of Association of the Company.

Board Meeting

During the financial Year under Review, the Board held six meetings and the individual attendance of each Director at those meetings are as follows:

Name of Director	Number of Board meetings attended
Mr. Yang Ziyuan	6/6
Mr. Sun Xingyu	6/6
Mr. Wang Hu	6/6
Ms. Chu Yinghong	6/6
Mr. Wong Yim Pan	6/6
Mr. Liu Zhumeng	6/6
Mr. Liang Zhongkang	6/6
Prof. Lu Yuanping (appointed since 27 June 2019)	2/2
Mr. O'Yang Wiley (appointed since 11 November 2019)	0/0
Mr. Tsang Yuen Wai (resigned on 11 November 2019)	6/6
Ms. Hui Yung Yung Janet (resigned on 27 June 2019)	4/4

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if required.

Corporate Governance Report

Directors' Continuous Training and Professional Development

All Directors are aware of their responsibilities to the shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director will receive an induction training to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements.

All Directors are provided with regular updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors on an ongoing basis.

Audit Committee

The Company established the Audit Committee on 16 June 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code as set out in Appendix 14 of the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely, Mr. Liang Zhongkang, Mr. O'Yang Wiley and Prof. Lu Yuanping. The Audit Committee is chaired by Mr. O'Yang Wiley.

The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the Company's internal audit function and internal control and risk management system of the Group, to oversee the audit process, to review the policies of the Company and to perform other duties and responsibilities as assigned by the Board.

The Audit Committee meets the external auditors at least twice a year to discuss any areas of concern during the audits or review. The Audit Committee reviews the interim and annual reports before submission to the Board for approval. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal and regulatory requirements in the review of the Company's interim and annual reports.

Moreover, the Audit Committee monitors the compliance with statutory and regulatory requirements, and review the scope, extent and result of the Company's internal audit function.

During the Year under Review, the Audit Committee held two meetings to review the annual results for the year ended 31 December 2018 and to review the interim results for the year ended 31 December 2019 of the Company. Subsequent to 31 December 2019, the Audit Committee held two meetings on 30 March 2020 and 17 April 2020, and reviewed the unaudited and audited annual results respectively for the Year under Review. The individual attendance of each relevant Director at those meetings are as follows:

Name of Director	Number of meetings attended
Mr. O'Yang Wiley (appointed since 11 November 2019)	0/0
Mr. Tsang Yuen Wai (resigned on 11 November 2019)	2/2
Mr. Liang Zhongkang	2/2
Prof. Lu Yuanping (appointed since 27 June 2019)	1/1
Ms. Hui Yung Yung Janet (resigned on 27 June 2019)	1/1

Nomination Committee

The Company established the Nomination Committee on 16 June 2015 with written terms of reference. The Nomination Committee consists of five members, being Mr. Yang Ziyuan, Mr. Liang Zhongkang, Mr. Wang Hu, Prof. Lu Yuanping and Mr. O'Yang Wiley. Three of the members of the Nomination Committee are our independent non-executive Directors. The Nomination Committee is chaired by Mr. Yang Ziyuan.

Corporate Governance Report

The Nomination Committee may invite nomination of candidates from Board members for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members. In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the food processing industry and/or other professional area.

The primary function of the Nomination Committee is to make recommendations to the Board on the appointment of members of the Board. It will perform ongoing review on the structure, size, composition and diversity of the Board on a regular basis and make recommendations on any proposed changes to the Board, and will monitor the training and continuous professional development of Directors and senior management.

Pursuant to the CG Code, the Board adopted a board diversity policy (the "Board Diversity Policy") on 16 June 2015. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of those perspectives that satisfies the needs of the Company's business. Selection of candidates will be based on a range of perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. During the Year under Review, the Nomination Committee held three meetings to recommend new directors, review the structure, size and composition of the Board and concluded that members of the Board has possessed the expertise and independence to carry out the Board's responsibilities, and the board diversity policy has been duly implemented. The individual attendance of each relevant Director at the meeting are as follows:

Name of Director	Number of meetings attended
Mr. Yang Ziyuan	3/3
Mr. Liang Zhongkang	3/3
Mr. Wang Hu	3/3
Prof. Lu Yuanping (appointed since 27 June 2019)	1/1
Mr. O'Yang Wiley (appointed since 11 November 2019)	0/0
Mr. Tsang Yuen Wai (resigned since 11 November 2019)	2/2
Ms. Hui Yung Yung Janet (resigned since 27 June 2019)	1/1

Remuneration Committee

The Company established the Remuneration Committee on 16 June 2015 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the CG Code as set out in Appendix 14 of the Listing Rules. The Remuneration Committee consists of four members, being Mr. Liang Zhongkang, Mr. Yang Ziyuan, Mr. O'Yang Wiley and Prof. Lu Yuanping. Three of the members of the Remuneration Committee are the independent non-executive Directors. The Remuneration Committee is chaired by Mr. Liang Zhongkang.

The primary duties of the Remuneration Committee include (but not limited to): (i) making recommendations to the Directors regarding the policy and structure for the remuneration of all the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of the Directors and senior management; (iii) assessing performance of the Directors and senior management and reviewing and approving the terms of management's remuneration proposals with reference to the Board's corporate goals and objectives; and (iv) considering and approving the grant of award shares and share options to eligible participants pursuant to the Share Award Scheme and Share Option Scheme.

The remuneration policy for the Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the performance of the Group and the individual performance of the Directors and members of senior management.

Corporate Governance Report

During the Year under Review, the Remuneration Committee held three meetings to approve the remuneration packages and performance bonus for the Directors and senior management of the Company. The individual attendance of each relevant Director at the meeting are as follows:

Name of Director	Number of meetings attended
Mr. Liang Zhongkang	3/3
Mr. Yang Ziyuan	3/3
Mr. Tsang Yuen Wai (resigned since 11 November 2019)	2/2
Ms. Hui Yung Yung Janet (resigned since 27 June 2019)	1/1
Prof. Lu Yuanping (appointed since 27 June 2019)	1/1
Mr. O'Yang Wiley (appointed since 11 November 2019)	0/0

During the consideration of the remuneration, no individual Director was involved in decisions relating to his own remuneration.

Strategic Development Committee

The Company established the Strategic Development Committee on 16 June 2015. The Strategic Development Committee consists of eight members, being Mr. Yang Ziyuan, Mr. Sun Xingyu, Mr. Wang Hu, Ms. Chu Yinghong, Mr. Wong Yim Pan, Mr. Liang Zhongkang, Mr. Liu Zhumeng and Mr. Ho Ho Tung Armen. Mr. Yang Ziyuan has been appointed as the chairman of our Strategic Development Committee.

The primary function of the Strategic Development Committee is to formulate the overall business strategies of the Group. The Strategic Development Committee is also responsible for monitoring the implementation of the business strategies of the Group.

During the Year under Review, the Strategic Development Committee held two meetings to review of business decision and advise on future business development and strategies of the Company. The individual attendance of each relevant Director at the meeting are as follows:

Name of Director and Senior Management	Number of meetings attended
Mr. Yang Ziyuan	2/2
Mr. Sun Xingyu	2/2
Mr. Wang Hu	2/2
Mr. Liang Zhongkang	2/2
Mr. Wong Yin Pan	2/2
Ms. Chu Yinghong	2/2
Mr. Liu Zhumeng	2/2
Mr. Ho Ho Tung Armen	2/2

Risk Management and Internal Control

Sufficient and effective risk management and internal control systems provide reasonable guarantee for the attainment of the Company's strategic objectives. In order to guarantee the effectiveness of risk management and internal control systems, the Group, under the supervision and guidance of the Board, has adopted systematic risk management methods and established a risk management and internal control organization structure with clear responsibilities and reporting procedures to identify and alleviate the risks impeding the accomplishment of corporate objectives, which is in line with the requirements of the Stock Exchange on amendments to relevant CG Code provisions on risk management.

The Board is responsible for assessing and determining the nature and extent of risks that the Company is willing to accept for achieving the purposes, and procuring the Company to set up and maintain proper and effective risk management and internal control systems; and supervising the management's design, implementation and monitoring of risk management and internal control system through the Audit Committee.

In addition to monitoring the Company's finance, internal control and risk management, the Audit Committee is also responsible for of monitoring the implementation of relevant CG Code provisions on risk management.

Corporate Governance Report

The Chief Executive Officer and senior management team are responsible for the design, implementation and monitoring of risk management and internal control systems, and confirming the effectiveness of risk management and internal control systems and compile a report to the Board in this regard at least once a year.

The Risk Control and Internal Audit Department (“RCIA”) is responsible for coordinating and arranging risk assessment and risk response, and promoting risk management and risk assessment. RCIA also has the functions to arrange post check, audit and monitoring for the risk management and internal control systems, and conduct independent assessment for internal audit activities.

These systems aim at managing, instead of eliminating, the risks that may impede us from realisation of the Company’s strategy and making reasonable and non-absolute guarantee for material misrepresentation or loss.

Risk management procedures

The Group has established a risk management framework, including the construction of the architecture for the organisation and definition of the responsibilities of all parties concerned, and prepared risk management policies and processes and clarified the risk assessment procedures, which, specifically include risk identification, risk analysis, risk control and risk report.

- Step 1: Risk identification – identify current risks exposed to the Group and business and existing management and control measures therefor.
- Step 2: Risk analysis – analyse the possibility, extent of influence and existing management and control measures, identify risk exposure, and propose further counter-measures.
- Step 3: Risk control – implement and periodically detect the identified risks to ensure effective operation of risk counter-measures.
- Step 4: Risk report – summarise the results of risk management analysis, prepare action plans and report to the management, Audit Committee and the Board.

During the Year under Review, the Group engaged an independent professional advisor to assist the RCIA in carrying out risk assessment, analysing the risks in terms of possibility and extent of influence, and determining the risks of the Group. With the assistance of the Audit Committee and those who are responsible for corporate governance, the Board has reviewed the effectiveness and sufficiency of risk management and internal control systems of the Group.

Internal control

The Group has developed an internal control mode, following the principle of COSO, consisting of five elements, i.e. control environment, risk assessment, control, information and communication, and monitoring. In this control mode, the Group’s management is responsible for design and implementation of internal control measures and maintenance of the effectiveness thereof, and the Board and Audit Committee will supervise the appropriateness of internal control measures as designed by the management and the effective implementation of internal control measures. To further strengthen the management’s responsibilities to the Group’s internal control system and confirmation work on the effectiveness of the Group’s internal control systems during the Year under Review, compliance and internal control department, in accordance with the COSO framework, assisted the management to set up the internal self-assessment questionnaire, guided the senior management team to make self-assessment and collected the result thereof. The Chief Executive Officer reviewed the circumstances of the self-assessment of each senior management, assessed the overall effectiveness of the Group’s internal control system, and represented the Group’s senior management team to submit a letter of confirmation to the Audit Committee and Board.

In order to comply with the requirements of the CG Code on risk management and internal control of the Group, the Group has set up RCIA, with an aim to continuously improve the effectiveness of risk management and internal control of the Group. The RCIA should prepare a risk- oriented annual audit plan, and, on the basis of risk assessment results, determine the work focus of internal audit that is in line with the organization objective. The annual plan should be subject to approval by the Audit Committee.

Corporate Governance Report

The establishment of internal control system is for the purpose of management of possible risks instead of elimination of risks. Meanwhile, the internal control should adapt to the Group's scale of operation, scope of business, competition and risks, and be subject to adjustments according to changes in circumstances in a prompt manner. It will be a long-lasting and continuous work for the Group to improve its internal control and risk management system, execute standard system and strengthen supervision and examination of internal control.

Inside information

The Group has formulated relevant policies and processes for inside information management. It is stipulated that the Group's sensitive or important information should be collected and determined as to whether it constitutes inside information by the secretary of the Board, and then be submitted to the management for review and assessment on the extent of its implications before submission to the Board for discussion and determination of compliance requirement. With a view to effectively implement the handling procedures for the Group's inside information, the Group has provided inside information training for Directors, supervisor, management and other personnel with possible access to inside information.

Review of the effectiveness of risk management and internal control systems

The Board has, through the Audit Committee, reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting functions, and their training programmes and budget, and was satisfied with the results of the review.

In 2019, the Audit Committee, on behalf of the Board, conducted a review on the effects of the Group's risk management and internal control systems. As suggested by the Audit Committee, the Board was satisfied that the Group has complied with the provisions regarding risk management and internal controls as required under the CG Code. For the Year under Review, the Board is of the view that the risk management and internal control systems are effective and sufficient, and no issues matters which may affect the Shareholders were identified in the Year under Review.

For details of the Group's potential risks identified in the Year under Review and counter-measures therefor, please refer to the "Report of the Directors" in the annual report.

Auditors' Remuneration

During the Year under Review, the remuneration provided and paid to the Company's external auditors, PricewaterhouseCoopers, was approximately RMB2.5 million and RMB0.4 million for audit services and non-audit services respectively. The non-audit services rendered was the fees for the provision of taxation and advisory services for risk management and internal control.

Directors' Responsibility for the Consolidated Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The statement by the auditors of the Company about their reporting responsibilities on the financial statements for the Year under Review are set out on page 38 of this annual report.

Company Secretary

The Company Secretary is Mr. Ho Ho Tung Armen. The biographical details of the Company Secretary are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. The Company Secretary took not less than 15 hours of relevant professional training in the Year under Review as required under Rule 3.29 of the Listing Rules.

Corporate Governance Report

Shareholders' Rights to Convene a General Meeting

The general meetings of the Company provide an opportunity for communications between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Shareholders may convene an extraordinary general meeting of the Company according to the provisions as set out in the Articles of Association and the BVI Business Companies Act. The procedures shareholders can use to convene an extraordinary general meeting are set out in the paragraph headed "Procedures for Putting Forward Proposals by Shareholders at General Meeting" below.

Procedures for Putting Forward Proposals by Shareholders at General Meeting

Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the issued shares of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

Putting Enquiries by Shareholders to the Board

To ensure effective communications between the Board and the shareholders and the investment community at large, the Company's information are communicated to the shareholders and the investment community mainly through the Company's financial reports (interim reports and annual reports), and its corporate communications and other corporate publications on the Company's website and the Stock Exchange's website. Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be directed to the Board at the Company's principal place of business in Hong Kong at Unit 605, 6th Floor, Beautiful Group Tower, 74-77 Connaught Road Central, Central, Hong Kong or by email at info@tianyuninternational.com.

Constitutional Documents

During the Year under Review, there was no amendment to the articles of association of the Company.

The existing articles of association of the Company are available on the websites of the Stock Exchange and the Company.

Communications with Shareholders and Investors

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board as well as the chairman or member of each of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategic Development Committee together with the external auditor are present to answer shareholders' questions. The annual report together with annual general meeting circular are distributed to all the shareholders at least 20 clear business days before the annual general meeting.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

Report of the Directors

The directors of the Company (the “Directors”) are pleased to present their annual report with the audited consolidated financial statements of the Company and its subsidiaries and the independent auditor’s report for the Year under Review.

Corporate Information

The Company was incorporated in the British Virgin Islands (“BVI”) with limited liability on 8 September 2011. The Company’s shares were listed on the Main Board of Stock Exchange on 7 July 2015 (the “Listing Date”).

Principal Activities

The Company is an investment holding company. The Group is principally engaged in (i) the production and sales of processed fruit products packaged in metal containers, plastic cups and glass containers and (ii) trading of fresh fruit. Processed fruit products are sold under our own brands and on an OEM basis.

Business Review

Key financial and business performance indicators

A review of the Group’s business and the analysis using the financial key performance indicators are set out on page 4 to 12 of this annual report under the paragraphs headed “Business Review” and “Financial Review” in the section headed “Management, Discussion and Analysis” of this annual report. In summary, the Group continued to implement the parallel development strategy on its own brand and OEM business in 2019 and continued to record a remarkable performance with revenue and gross profit increased by 13.0% and 12.4% respectively, including approximately 31% year-on-year revenue growth of our own brand products. Net profit for the year increased by 14.6% to RMB169.1 million.

Relationship with Customers and Suppliers

The Group understands the importance of maintaining good relationship with its customers and suppliers to meet its immediate and long-term business goals. During the Year under Review, there were no material and significant dispute between the Group and its customers and suppliers.

Compliance with laws and regulations

The Group has compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing obligation to monitor adherence to and compliance with all significant legal and regulatory requirements. As far as the Company is aware and save and except for certain deviation from the CG Code as set out under Appendix 14 of the Listing Rules, it has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

Workplace Quality

The Group always takes human resources as priority. The Group also recognises the importance of good working relationship with its employees. During the Year under Review, the Group has not experienced any significant problems with its employees nor significant labour disputes or industrial actions. The Group continued to support the social responsibilities for long-term, and contribute to the society enthusiastically, as all the related plans have been arranged since the establishment of the company while promoting the development of enterprises. In terms of the human resources management, the Group has established a sound personnel management program, including the protection of labour rights and interests to avoid illegal recruitment as well as the staff training system, etc. The Directors believe that the Group has good working relationship with its employees as a whole.

Report of the Directors

Principal risks and uncertainties

The Group is exposed to a variety of key financial risks including market risk, credit risk and liquidity risk. Details of the aforesaid key risks and risk mitigation measures are elaborated in Note 3 headed “Financial risk management” to the Consolidated Financial Statements of this annual report.

In 2019, 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 four critical risks disclosed in the 2018 annual report still existed. Due to the coronavirus outbreak, one additional major risk namely risk in public emergency, also became prominent. In comparison with 2018, international business environment risk increased due to the China-US trade friction, while the other risks stay at the similar level as last financial year or decreased. For the effects of each category of risks on the Group, the Group has provided a detailed description, and prepared corresponding alleviating/avoidance measures to manage such risks. Details are as follows:

Risk in Public Emergency

Natural disasters, social security events or epidemics, including earthquakes, fires, terrorist attacks, influenza (such as H1N1 and SARS), novel coronavirus disease (“COVID-19”), etc. may negatively affect the operation of the Group. Such incidents may cause damage to the logistics network on which the Company and its partners operate, or the Group may not be able to produce or deliver products to customers on time within a short period due to government policies and administrative orders. They may also delay the Group’s customers in placing their orders or settlement of the prices.

Risk Management Measures: The Group has developed corresponding plans for public emergencies. In response to the epidemic situation of COVID-19, an emergency leading group for epidemic prevention and control was promptly set up. According to the emergency plan, all team members cooperated with each other, fulfilled their responsibilities at all levels, carried out detailed implementation, and strictly implemented the prevention and control measures for COVID-19. The Group has actively communicated with its business partners on material supply, order production and logistics arrangement; it also pays close attention to the safety of employees, and issues management policies in a timely manner based on the requirements of the national and local government, to ensure the safety of employees.

International Business Environment Risk

The Group’s products are sold in both the PRC and overseas market. The uncertainty of the international political environment and policy trends may have a negative impact on our overseas sales. For example, the recent China-US trade friction leads to increased US tariffs on Chinese imports, which may lead to the increase of retail price of our products in the US market, thus causing erosion of the price competitiveness of our products in the US market. If the China-US trade friction sustains or intensifies, it may adversely affect the business prospects of the Group in US.

Risk Management Measures: The Group has set up dedicated task force that works closely with management and external professionals to monitor and identify changes in overseas political environment and trade regulations, particularly the China-US trade relations, so as to adjust the Group’s overseas sales plan and payment receipts strategy in a timely manner, and take appropriate measures to ensure that the Group is in compliance with the applicable laws, regulations and quality standards.

Report of the Directors

Merger and Acquisition Risk

In order to satisfy the increasing orders, the Group may expand its production capacity and enrich its product category or expand sales pipelines through establishing joint ventures with or acquiring other food processing and manufacturing enterprises in the next few years. As a result, there will be higher requirements for operation management and post-investment management to the Group.

Risk Management Measures: The Group attaches great importance to risk in merger and acquisition and investment management, and has established a dedicated team under the board of directors to advise on acquisition and investment matters. Meanwhile, professionals are engaged to conduct due diligence and assess the acquisition targets to reduce potential risks of acquisitions like litigation risks and financial risks. The dedicated team also follows up on the post-investment management, and regularly obtains and reviews the relevant operating and financial status of the investee companies to ensure that the investment strategy targets can be met. The Group also regularly evaluates the funding situation and continuously expands financing pipelines to enhance the financing capabilities, in order to support business development and meet investment needs. The Group may retain the original qualified management of the target companies to ensure management stability of the target companies as far as possible. Trainings will also be offered to all staff of the target companies to gradually form a uniform group culture. In addition, the Group has invested resources in internal audit and internal control function to empower the acquired and investee companies, and to continuously support the management of the acquired and investee companies on establishing sound risk management and internal control system.

Risk in respect of Product Quality and Food Safety

Product quality and food safety are crucial to the food processing industry, so 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 may affect the business and results of operation of the Group.

Risk Management Measures: The Group is committed to providing healthy and safe products for customers in strict compliance with international standards and has obtained BRC(A), IFS food (High), HALAL, QS, KOSHER and ISO22000 certificates for production facilities, quality control and management. The Group is the first canned fruit company that passed the audit of FSMA (Food Safety Modernization Act of US) in mainland China. 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 met 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 intensive professional training for the staff of quality control, production management and R&D departments. The Group conducts strict tests and examination for the raw and auxiliary materials to be warehoused as well as finished goods by batches with stringent processes, so as to ensure safe and sanitary product production process. In addition, tests and examination are conducted on 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.

Brand and Reputation Risk

The Group will continue its strategy to develop the OEM and own brand business in parallel. If brand promotion is not sufficient, or public relation professionals fail to deal with negative news in a timely manner or disclose comprehensive and proper information to the public, the Group's reputation and brand image may be damaged. 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.

Report of the Directors

Risk Management Measures: The Group's existing registered brands include "繽果時代 (Bingo Times)" "天同時代 (Tiantong Times)" and "果小懶 (fruit zz)". Ever since the year of 2015, 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 related to the Group and report 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 industry forums and other activities which are organised by China Canned Food Industry Association. Moreover, the Group plans to engage professionals in brand building, and gradually increases investment in advertisement to promote brand's and the Group's image by further leveraging on media resources with the assistance of marketing and branding consultants. In 2019, Shandong Tiantong Food Co., Ltd., a wholly-owned subsidiary of the Company, was awarded three significant prizes, including "Canned Food Brand of China in 40 Years of Reform and Opening-up", "The 2019 Leading Company of China Canned Food" and "The 2019 Leading Brand of China Canned Food" for its brand "Bingo Time" by China Canned Food Industry Association. The Group has also been listed in the "Brand Value List of China" for three consecutive years since 2017.

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

Use of Proceeds from IPO

On 7 July 2015, the Company's shares were listed on the main board of the Stock Exchange. A total of 250,000,000 shares were issued to the public at HK\$1.28 per share for a total gross proceeds of HK\$320 million. The total net proceeds raised from the IPO of the Company were approximately HK\$274.9 million after the deduction of related listing expenses. The use of proceeds has been consistent with the disclosure in the prospectus of the Company dated 24 June 2015. Up to the date of this annual report, the respective uses of the net proceeds are as follows:

Net proceeds from IPO

	Available RMB million Equivalent	Used RMB million Equivalent	Unused RMB million Equivalent
Capital expenditure on new production facilities	113.4	45.6	67.8
Expand distribution and sales network	34.0	34.0	–
Enhance our brand awareness and promote the on-line shopping platform	34.0	34.0	–
Enhance our research and development capabilities	11.3	11.3	–
Enhance the information technology systems and infrastructure	11.3	11.3	–
Working capital and general corporate purposes	22.7	22.7	–

The Group plans to utilise all unused proceeds in the year ending 31 December 2020.

Future business development

Please refer to the paragraph headed "Prospect" of the section headed "Management Discussion and Analysis" in this report for further details.

Results and Dividend

The results of the Group for the Year under Review are set out in the consolidated statement of comprehensive income on page 43. The Board has proposed a final dividend of HK\$0.03 per share for the year ended 31 December 2019, to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at 8 July 2020 (the record date). Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company ("2020 AGM"), the final dividend will be paid on or about 29 July 2020. There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividends.

Report of the Directors

Significant Investments

As at 31 December 2019, the Group did not hold any significant investments (2018: Nil).

Closure of Register of Members

For determining the entitlement to attend and vote at the 2020 AGM, the register of members of the Company will be closed from 19 June 2020 to 24 June 2020 (both days inclusive), during such period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2020 AGM, all transfer of shares of the Company accompanied by the relevant share certificate(s) and appropriate transfer form(s) must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 18 June 2020.

For determining the entitlement to receive the proposed final dividend, the register of members of the Company will be closed from 3 July 2020 to 8 July 2020 (both days inclusive), during such period no transfer of shares of the Company will be registered. In order to be eligible to receive the proposed final dividend, all transfer of shares of the Company accompanied by the relevant share certificate(s) and appropriate transfer form(s) must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 2 July 2020.

Major Customers and Suppliers

During the Year under Review, the aggregate sales to the Group's five largest customers accounted for approximately 20.7% of the Group's total revenue and sales to the Group's largest customer was approximately 5.7% of the Group's total revenue.

During the year, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 26.1% of the Group's total purchases, and the purchases attributable to the Group's largest supplier was approximately 6.0% of the Group's total purchases.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had interests in the Group's five largest customers or suppliers.

Property, Plant and Equipment

Details of the movement in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Group and Company during the Year under Review are set out in notes 22 and 36 to the consolidated financial statements respectively. Under the BVI Business Companies Act, the share capital of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be distributed, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

Reserves

Details of the movements in reserves of the Group and of the Company during the year are set out in notes 23 and 36 to the consolidated financial statements respectively.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the BVI, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Report of the Directors

Tax Relief

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's shares.

Financial Summary

A summary of the consolidated results of the Group for the past five financial years and of its consolidated assets and liabilities as at the end of the past five financial years is set out on page 101 of this annual report.

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

During the Year under Review, save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year. Details of the movements in the share capital of the Company during the year are set out in note 22 to the consolidated financial statements.

Equity-linked Agreements

Other than the Share Option Scheme as disclosed in this annual report and note 24 to the consolidated financial statements, no equity-linked agreements were entered into by the Company during the Year under Review or subsisted at the end of the Year under Review.

Arrangements to Purchase Shares or Debentures

Save for the Share Option Scheme (as defined below) and the Share Award Scheme (as defined below), at no time during the Year under Review was the Company, its controlling shareholders, holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") with effect from the Listing Date.

The Share Option Scheme is a share incentive scheme and is established to enable the Company to grant options to the eligible participants as set out below as incentives or rewards for their contribution they had or may have made to the Group.

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine to the following eligible participants:

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any directors (including independent non-executive directors) of the Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and
- (iv) any such other persons who in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of its subsidiaries.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following the completion of the global offering, being 100,000,000 Shares.

Report of the Directors

Unless approved by the Shareholders, the total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant.

Upon acceptance of the option, the grantee shall pay HK\$1.00 (or an equivalent amount in RMB) to the Company by way of consideration for the grant.

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will be at least the higher of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; and
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted.

The Scheme remains effective for a period of ten years commencing from 16 June 2015. Details of the Scheme are set out in note 24 to the consolidated financial statements.

Movements of the Company's share options during the Year under Review were as follows:

Grantee	Outstanding 01/01/2019	Exercised during the year ended 31/12/2019	Lapsed during the year ended 31/12/2019	Outstanding at 31/12/2019	Date of Grant	Exercised period	Exercise price (HK\$)	Price of the Company's share immediately before the grant date (HK\$)
Key management	510,000	-	(255,000)	255,000	06/10/2015	Note 1	1.70	1.70
Other Employees	2,490,000	-	(1,245,000)	1,245,000	06/10/2015	Note 1	1.70	1.70
	3,000,000	-	(1,500,000)	1,500,000				
Key management	1,410,000	-	(705,000)	705,000	21/04/2016	Note 2	0.97	0.93
Other Employees	6,290,000	-	(3,145,000)	3,145,000	21/04/2016	Note 2	0.97	0.93
	7,700,000	-	(3,850,000)	3,850,000				
Total	10,700,000	-	(5,350,000)	5,350,000				

Notes:

1. The validity periods to exercise the share options are as follows:
 - (a) 50% of the share options shall be exercisable during the period from 1 January 2016 to 31 December 2018 (upon vesting of the same on 31 December 2015 on the condition that the relevant grantee is still the employee of the Group at the material time);
 - (b) 25% of the share options shall be exercisable during the period from 1 January 2017 to 31 December 2019 (upon vesting of the same on 31 December 2016 on the condition that the relevant grantee is still the employee of the Group at the material time); and
 - (c) 25% of the share options shall be exercisable during the period from 1 January 2018 to 31 December 2020 (upon vesting of the same on 31 December 2017 on the condition that the relevant grantee is still the employee of the Group at the material time).

Report of the Directors

2. The validity periods to exercise the share options are as follows:
- (a) 50% of the share options shall be exercisable during the period from 1 January 2017 to 31 December 2019 (upon vesting of the same on 31 December 2016 on the condition that the relevant grantee is still the employee of the Group at the material time);
 - (b) 25% of the share options shall be exercisable during the period from 1 January 2018 to 31 December 2020 (upon vesting of the same on 31 December 2017 on the condition that the relevant grantee is still the employee of the Group at the material time); and
 - (c) 25% of the share options shall be exercisable during the period from 1 January 2019 to 31 December 2021 (upon vesting of the same on 31 December 2018 on the condition that the relevant grantee is still the employee of the Group at the material time).

Share Award Scheme

On 30 March 2016, to provide incentives to the selected participants (including, inter alia, directors, employees, officers, agents or consultants of the Company or any of its subsidiaries) and allow the Group to attract and retain talents for the continued operation and development of the Group, the Board has resolved to adopt the share award scheme (the "Share Award Scheme"). During the Year under Review, no share was granted under the Share Award Scheme.

Subsidiaries

Details of the Company's subsidiaries as at the date of this annual report are set out in note 17 to the consolidated financial statements.

Retirement Benefit Scheme

As required by PRC regulations as well as mandatory rules of the PRC governments, the Group participates in various social welfare schemes including pension, medical, maternity, work-related injury insurances, unemployment insurance and housing provident fund contributions. The Group is required under PRC laws to make contributions to these schemes based on certain percentages of the salaries, bonuses and certain allowances of the employees of the Group in accordance with the respective regulatory requirement, up to a minimum amount specified by the relevant governments from time to time.

The employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong).

The total expense recognised in profit or loss statement of approximately RMB3.7 million (2018: RMB2.9 million) represents contributions paid and payable to the retirement benefit scheme during the Year under Review.

Donations

In 2019, we donated a total of approximately RMB44,000 for charitable purpose (2018: RMB13,000).

Directors

The Directors during the Year under Review and up to the date of this annual report were:

Executive Directors

Mr. Yang Ziyuan (*Chairman and Chief Executive Officer*)

Mr. Sun Xingyu

Mr. Wang Hu

Report of the Directors

Non-executive Directors

Ms. Chu Yinghong
Mr. Wong Yim Pan
Mr. Liu Zhumeng

Independent Non-executive Directors

Mr. Liang Zhongkang
Prof. Lu Yuanping (*appointed on 27 June 2019*)
Mr. O'Yang Wiley (*appointed on 11 November 2019*)
Mr. Tsang Yuen Wai (*resigned on 11 November 2019*)
Ms. Hui Yung Yung Janet (*resigned on 27 June 2019*)

According to Articles 75(1) and (2) of the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Between persons who became or were last re-elected Directors on the same day, those subject to retirement shall (unless they otherwise agree among themselves) be determined by lot.

Pursuant to Article 75(1) of the Articles of Association of the Company, Ms. Chu Yinghong, Mr. Wong Yim Pan and Mr. Liang Zhongkang will retire from office as Directors by rotation at the AGM and, being eligible, offer themselves for re-election.

Pursuant to Article 74(3) of the Articles of Association of the Company, Prof. Lu Yuanping and Mr. O'Yang Wiley will retire from office as Directors at the AGM and, being eligible, offer themselves for re-election.

In compliance with Rule 3.10(1) of the Listing Rules, the Board currently comprises three independent non-executive Directors, representing one-third of the Board.

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out on pages 33 to 37 to this annual report.

Directors' Service Contracts

Mr. Yang Ziyuan and Mr. Sun Xinyu has renewed his service contract with our Company pursuant to which he agreed to act as an executive Director for another term of 3 years with effect from 16 June 2018.

Mr. Wang Hu has entered into a service contract with our Company for a term of 3 years with effect from 22 October 2018.

Each of our non-executive Directors and independent non-executive Directors has signed a letter of appointment with our Company respectively. Save and except for Mr. Liu Zhumeng, Prof. Lu Yuanping and Mr. O'Yang Wiley, the term of office of our non-executive Directors and independent non-executive Directors is 3 years with effect from 16 June 2018. The term of office for Mr. Liu Zhumeng is 3 years with effect from 22 October 2018, the term of office for Prof. Lu Yuanping is 3 years with effect from 27 June 2019, and the term of office for Mr. O'Yang Wiley is 3 years with effect from 11 November 2019.

None of the Directors has entered into any service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Report of the Directors

Interests in Transactions, Arrangement or Contracts

No transactions, arrangement or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, and there were no transactions, arrangement or contracts of significance for the provision of services to the Group by the controlling shareholder of the Company.

Directors' Indemnity

According to the Articles of Association of the Company, the Directors for the time being of the Company acting in relation to any of the affairs of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty in their respective offices or trusts.

The Company has taken out appropriate insurance cover in respect of legal action against the Directors during the Year under Review.

Connected Transaction

On 11 February 2019, the Company and Sichuan Yizhan, a subsidiary of a substantial shareholder of the Company, SDIH, entered into the conditional joint investment agreement. The joint investment agreement constituted a connected transaction of the Company. For details, please refer to the announcement of the Company dated 11 February 2019, the circular of the Company dated 18 March 2019 and the paragraph headed "Material acquisitions and disposals" of the section headed "Management Discussion and Analysis" of this report.

The joint investment agreement was approved at the extraordinary general meeting of the Company held on 2 April 2019 and the joint venture company was established on 30 July 2019.

Related Party Transactions

Details of related party transactions entered into during the year were disclosed in note 34 to the consolidated financial statements. These related party transactions either did not constitute connected transactions under the Listing Rules or were discontinued prior to the listing of the Company's shares on the Stock Exchange.

Directors' Interests in Competing Businesses

None of the Directors or any of their respective associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

Management Contracts

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

Independent Non-executive Directors

Each of the Independent Non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all of the Independent Non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

Report of the Directors

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

As at 31 December 2019, the interests and short positions of our Directors and chief executive of our Company in the Shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions), or required, pursuant to section 352 of the SFO, to be entered in the register referred to therein are as follows:

Long Position in Ordinary Shares and Underlying Shares of the Company

Name of Directors	Capacity/Nature of interest	Number of shares held	Approximate percentage of total issued share capital
Mr. Yang Ziyuan	Interest of a controlled corporation	190,702,260 <i>(Note 1)</i>	19.51%
Ms. Chu Yinghong	Interest of spouse	190,702,260 <i>(Note 2)</i>	19.51%
Mr. Sun Xingyu	Interest of a controlled corporation	110,000,000 <i>(Note 3)</i>	11.25%

Notes:

1. The shares are held by Wealthy Active Limited and is wholly-owned by Mr. Yang Ziyuan. Mr. Yang Ziyuan is deemed to be interested in these shares under the SFO.
2. Ms. Chu Yinghong is the spouse of Mr. Yang Ziyuan and is deemed to be interested in the shares held by Mr. Yang Ziyuan.
3. The shares are held by Wealthy Maker Limited and is wholly-owned by Mr. Sun Xingyu. Mr. Sun Xingyu is deemed to be interested in these shares under the SFO.

Save as disclosed above, as at 31 December 2019, none of the Directors 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 the Company 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.

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

As at 31 December 2019, so far as is known to the Directors or chief executive of the Company, the following persons or corporations other than Directors or chief executive of the Company, who had an interest or short position of 5% of more in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept under section 336 of the SFO, were as follows:

Report of the Directors

Long Position in the Shares of the Company

Name of Shareholders	Capacity/Nature of interest	Number of shares held	Approximate percentage of total issued share capital
Sichuan Development International Holding Company Ltd. (Note 1)	Beneficial owner	263,914,740	27.00%
Wealthy Active Limited (Note 2)	Beneficial owner	190,702,260	19.51%
Wealthy Maker Limited (Note 3)	Beneficial owner	110,000,000	11.25%
Sino Red Limited (Note 4)	Beneficial owner	73,467,000	7.52%

Notes:

1. Sichuan Development International Holding Company Ltd. is wholly-owned by 四川發展（控股）有限責任公司 (Sichuan Development Holding Company Ltd.).
2. Wealthy Active Limited is a company incorporated in the BVI and is wholly-owned by Mr. Yang Ziyuan.
3. Wealthy Maker Limited is a company incorporated in the BVI and is wholly-owned by Mr. Sun Xingyu.
4. Sino Red Limited is a company incorporated in the BVI and is wholly-owned by Ocean Equity Partners Fund L.P.

Save as disclosed above, so far as is known to the Directors of the Company, no other person (other than the Directors and chief executive of the Company) had any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations which were or required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be recorded in the register required under section 336 of the SFO as at 31 December 2019.

Corporate Governance Practices

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report as set out on pages 13 to 20 of this annual report.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, since the Listing Date and up to the date of this annual report, at least 25% of the Company's issued shares were held by the public as required under Rule 8.08 of the Listing Rules.

Review of the Final Results by Audit Committee

The Audit Committee has reviewed together with the management and the Company's independent auditor the accounting principles and practices adopted by the Group and has discussed auditing, internal control and financial reporting matters, including the review of the audited consolidated financial statements for the year ended 31 December 2019.

Auditor

The consolidated financial statements for the year ended 31 December 2019 were audited by PricewaterhouseCoopers. A resolution for the reappointment of PricewaterhouseCoopers as the Company's independent auditor and authorising the Board to fix its remuneration will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
Tianyun International Holdings Limited

Yang Ziyuan
Chairman

Hong Kong, 17 April 2020

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Yang Ziyuan (楊自遠), Chairman and Chief Executive Officer

Mr. Yang Ziyuan, aged 56, was appointed as our executive Director, Chairman of the Board and the Chief Executive Officer on 8 September 2011. He is responsible for the overall planning and strategic development of our Group's business. He joined 臨沂同泰食品機械製造有限公司 ("Linyi Tongtai Food Machine Manufacture Co., Ltd.") ("Tongtai") as a director and vice chairman in March 1995 and co-founded 山東天同食品有限公司 ("Shandong Tiantong Food Co., Ltd.") ("Shandong Tiantong") with Mr. Sun in 2003 as a president and chairman of the board. Mr. Yang is the spouse of Ms. Chu Yinghong, one of our non-executive Directors.

Mr. Yang graduated from Qingong Worker University of Hangzhou (杭州輕工職工大學) focusing on food engineering in July 1988, and completed a course in Master of Business Administration in Renmin University of China in July 2001. Prior to founding our Group, he worked as an equipment technician in Linyi Canney (臨沂市罐頭廠) from September 1989 to May 1990. Between May 1990 and March 1995, he was the manager in the production technology department, the assistant of the general manager, the deputy chief engineer and deputy general manager of Linyi Carrie Enterprises Company (臨沂凱利實業公司). Between January 1998 and December 2012, he was the general manager and chairman of the board of Linyi Jinhua Food Company Limited (臨沂金花食品有限公司), a company established in the PRC and whose principal business is the processing of roasted food and nut products. Since January 1995, he has been the general manager and chairman of the board of Linyi Yuanyu Trading Co., Ltd. (臨沂遠宇貿易有限公司) ("Yuanyu"), whose principal business is operating of and acting as agent for import and export of various types of goods and technology.

Mr. Sun Xingyu (孫興宇)

Mr. Sun Xingyu, aged 59, was appointed as our executive Director on 10 November 2014. He is responsible for financial management of our Group. He has been a director of Tongtai since December 1996 and co-founded Shandong Tiantong in 2003, being responsible for the financial management of our Group.

Mr. Sun graduated from Finance School of Shandong Province (山東省財政學校) in July 1981 and completed a course in Chinese Language and Literature in Shandong Radio and Television University (山東廣播電視大學) in November 1988. Prior to joining our Group, he has been the deputy general manager of Yuanyu, whose principal business is operating and acting as agent for import and export of various types of goods and technology. Between January 1998 and December 2012, he was the deputy general manager of Linyi Jinhua Food Company Limited (臨沂金花食品有限公司), a company established in the PRC and whose principal business is processing of roasted food and nuts products.

Mr. Wang Hu (王虎)

Mr. Wang Hu, aged 36, was appointed as our executive Director on 22 October 2018. He is currently the chief financial officer of Sichuan Development International Holding Company Ltd* (四川發展國際控股有限公司) ("SDIH").

Before he joined SDIH in 2014, he worked in the accounting department of China Taly Aviation Technologies Corp. (中國天利航空科技實業有限公司), and the finance department of Chengdu Industrial Investment Asset Management Company Limited* (成都工投資產經營有限公司). After joining SDIH, Mr. Wang has successively been the general manager of the finance department, the assistant to general manager and the chief financial officer. Mr Wang was a director of Chengdu Westone Information Industry Inc. (成都衛士通資訊產業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002268) from July 2016 to November 2019. Mr. Wang obtained his bachelor's degree in finance management from Beijing Information Science & Technology University (formerly known as Beijing Institute of Machinery). He received a Master degree in economics from the Southwestern University of Finance and Economics in 2019. He is also a PRC senior accountant (中國高級會計師) and a PRC registered tax agent (中國註冊稅務師).

Biographical Details of Directors and Senior Management

Non-executive Directors

Ms. Chu Yinghong (褚迎紅)

Ms. Chu Yinghong, aged 59, was appointed as our non-executive Director on 10 November 2014. She is responsible for providing advice on strategic development of our Group. She joined our Group in January 2003 as a Director of Shandong Tiantong. Ms. Chu is the spouse of Mr. Yang, one of our executive Directors.

Ms. Chu completed a course in Chinese Language and Literature in Shandong Radio and Television University (山東廣播電視大學) in November 1988. Prior to joining our Group, she has been employed by Linyi Carrie Enterprises Company (臨沂凱利實業公司) as an assistant engineer during the period between July 1993 and July 1996. Since September 2000, she has been the deputy general manager, general manager and the chairman of the board of Linyi Jinhua Food Company Limited (臨沂金花食品有限公司).

Mr. Wong Yim Pan (黃炎斌)

Mr. Wong Yim Pan, aged 53, was appointed as our Director on 10 November 2014 and re-designated as our non-executive Director on 16 June 2015. He is responsible for providing advice on strategic development of our Group. Mr. Wong graduated from The University of Hong Kong with a degree of bachelor of science in engineering in December 1989. He obtained a master degree in business administration from The Chinese University of Hong Kong in October 1992.

Mr. Wong was conferred by Hong Kong Institute of Certified Public Accountants as a certified public accountant in July 1995. He has been a fellow of The Association of Chartered Certified Accountants since February 2000, and of The Institute of Chartered Accountants in England & Wales since April 2015. He has been an associate of The Chartered Institute of Management Accountants since August 1998, and of The Hong Kong Institute of Chartered Secretaries since August 2011. He has also been a CFA charter holder of the CFA Institute since September 2006, and a member of The Association of Corporate Treasurers since January 2006.

Mr. Wong worked as a supervisor of the audit division of Coopers & Lybrand (now known as PricewaterhouseCoopers), an international audit firm at that time from December 1992 to March 1996. He has been the assistant manager of New World Infrastructure Limited, an infrastructure company then listed on the Stock Exchange (stock code: 0301), from March 1996 to May 2000. He worked at Alcatel-Lucent, a global telecommunications equipment company as the internal auditor, senior internal auditor and audit manager from May 2000 to August 2010, and worked as the senior audit manager of Shui On Land Limited, a property development company listed on the Stock Exchange (stock code: 0272) from September 2010 to February 2012. Afterwards, he has been the chief operating officer of Ocean Equity Partners Limited since March 2012, being responsible for project appraisal, operational control and management, accounting and administrative matters.

Mr. Liu Zhumeng (劉竹萌)

Mr. Liu Zhumeng, aged 30, was appointed as our non-executive Director on 22 October 2018. He is currently the general manager at the investment banking department of SDIH. Before he joined SDIH in 2014, Mr. Liu worked in the audit and assurance department of BDO China Shu Lun Pan CPAs (LLP)(立信會計師事務所) ("BDO China"). Mr. Liu obtained his master's degree in accounting from Michigan State University.

Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Mr. Liang Zhongkang (梁仲康)

Mr. Liang Zhongkang, aged 75, was appointed as our independent non-executive Director on 16 June 2015. Mr. Liang completed a course in food engineering in Wuxi Institute of Light Industry (無錫輕工業學院) (now known as Jiangnan University (江南大學)) in August 1968. He was conferred as a senior engineer by China Light Industry Association (中國輕工總會) in December 1993. He is currently a China Canned Food Industrial Technical Expert.

Mr. Liang worked as a senior engineer in the division of food and paper manufacturing of China Light Industry Association (中國輕工總會) from July 1987 to December 2000. He was the chairman of the executive committee of China Canned Food Industry Association (中國罐頭工業協會), and he was an independent director of ORG Packaging Co., Ltd. (奧瑞金包裝股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002701), from January 2011 to June 2017.

Prof. Lu Yuanping (呂遠平)

Prof. Lu Yuanping, aged 49, was appointed as our independent non-executive Director on 27 June 2019. She obtained a doctorate degree in Engineering from Sichuan University in 2009.

Prof. Lu, is the vice dean of Sichuan University Institute of Agricultural Products Processing and faculty head of the Food Engineering Faculty of the same university. She is also the deputy head of Food Science and Technology Sichuan Province Higher Education Major Laboratory. She has edited 4 textbooks and published more than 60 academic articles regarding food processing. She has obtained 24 patents related to food processing. She was in charge of more than 30 research projects commissioned by provincial and municipal governments and corporations. She was named Sichuan University Young Backbone Teacher in 2004, 2007 and 2009. She obtained Sichuan Province Higher Education Teaching Award Prizes in 2004 and 2005.

Mr. O'Yang Wiley (歐陽偉立)

Mr. O'Yang Wiley, aged 57, was appointed as our independent non-executive Director on 11 November 2019. Mr. O'Yang graduated from the Chinese University of Hong Kong in Hong Kong with a bachelor's degree in Social Science in December 1985 and a master's degree in Business Administration in October 1990. He obtained a common professional examination certificate from the School of Professional and Continuing Education of the University of Hong Kong in Hong Kong in June 1993. He obtained the postgraduate certificate in Laws from the department of professional legal education of the Faculty of Law at the University of Hong Kong in June 1994. He is also a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Law Society of Hong Kong.

Mr. O'Yang has served as an independent non-executive director of Hong Kong Economic Times Holdings Limited (stock code: 0423) since October 2012, as an independent non-executive director of Midea Real Estate Holding Limited (stock code: 3990) since the company's listing in October 2018 and as an independent non-executive director of D&G Technology Holding Company Limited (stock code: 1301) and AB Builders Group Limited (stock code: 1615) since May and June 2019 respectively. Mr. O'Yang serves as the managing director of Shanggu Securities Limited since February 2018. Prior to joining Shanggu Securities Limited, he worked for over 13 years in various financial institutions, including CMBC International Holdings Limited, a wholly-owned subsidiary of China Minsheng Banking Corp., Ltd. (stock code: 1988), Kim Eng Securities (Hong Kong) Limited, a wholly-owned subsidiary of Malayan Banking Berhad, UBS AG, Hong Kong branch, J.P. Morgan Securities (Asia Pacific) Limited and BNP Paribas Capital (Asia Pacific) Limited, and held the positions of managing director and executive director. Mr. O'Yang had also worked for over six years as a solicitor in private practice at a number of solicitors' firms and was a partner of Richards Butler (currently known as Reed Smith Richards Butler) immediately before he joined BNP Paribas Capital (Asia Pacific) Limited in May 2004.

Biographical Details of Directors and Senior Management

Senior Management

Ms. Lv Chunxia (呂春霞), aged 55, is our deputy general manager who joined our Group in January 2003, being responsible for product quality inspection and product development of the Group.

Ms. Lv completed a course in Chinese Language and Literature in Shandong Radio and Television University (山東廣播電視大學) in July 1988. Between December 1980 and January 2003, Ms. Lv acted as a quality inspector, the director of quality inspection and the deputy director of quality of Linyi Cannery (臨沂罐頭廠). She has been accredited as the Expert of Canned Food Technology Committee of China National Food Industry Association (中國食品工業協會罐藏食品科技工作委員會專家委員) for four consecutive sessions since August 2002. She has also been appointed as a committee member of the third Expert Committee of Canned Food Technology Committee of China Canned Food Industry Association (中國罐頭工業協會科技工作委員會第三屆委員會專家委員) in May 2010. In November 2017, she was appointed as a member of the canning sub-Technical committee of the National Technical Committee of Food Industry Standardization (全國食品工業標準化技術委員會罐頭分技術委員會委員). And She was awarded the title of Outstanding Technical Expert of China Canning Industry (中國罐頭行業優秀技術專家稱號) in November 2018.

Mr. Ho Ho Tung Armen (何浩東), aged 43, was appointed as our Chief Financial Officer and Company Secretary in February 2015. He is primarily responsible for overseeing the corporate strategies, finance, capital market, investor relations, board governance, internal audit and compliance, and the Hong Kong office of the Group. Prior to joining the Company, Mr. Ho was the chief financial officer of the Tuenbo Group Limited. Prior to that, he held various senior positions in Wisdom Asset Management Limited, Hermes Capital Limited and Evolution Group Limited (now known as Investec Group) specialized in asset management, private equity, and corporate finance. Mr. Ho also worked for PricewaterhouseCoopers Hong Kong, KPMG UK and Grant Thornton Corporate Finance UK from 1998 to 2006 specialising in audit, advisory and corporate finance.

Mr. Ho received a MBA degree from the University of Chicago Booth School of Business, a Master of Science degree in financial economics from University of London and a Bachelor of Arts (Honours) degree in accountancy from City University of Hong Kong. He is currently a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ho has been an independent non-executive director of Stream Ideas Group Limited (stock code: 08401.HK) and Sunlight Technology Holdings Limited (stock code: 01950.HK) since the company's listing in March 2018 and March 2020 respectively.

Mr. Jiang Yubao (蔣余寶), aged 46, was appointed as general manager of Shandong Tiantong in February 2019. He is responsible for overall management matters of Shandong Tiantong. Mr Jiang joined Tongtai of our Group in August 1995 after graduation. He was then transferred to Shandong Tiantong in January 2003, as the trading manager and responsible for overseeing sales, and import and export matters of Shandong Tiantong. Mr Jiang graduated from Linyi Business School of Shandong Province (山東省臨沂商業學校) in July 1995 majoring in accountancy and statistics.

Ms. Jiang Xiulan (姜秀蘭), aged 48, was appointed as deputy general manager of Shandong Tiantong in February 2019. She is responsible for overseeing matters relating to human resources, quality control, risk management and internal control of Shandong Tiantong. She joined Shandong Tiantong in January 2003 as a manager in the quality control department. Ms. Jiang completed a course majoring in accounting and auditing in Heilongjiang Business School (黑龍江商學院) in July 1991. She is currently studying for Bachelor of Food Quality and Professional Safety in China Agricultural University on a part time basis. Between October 1992 and January 2003, she was the statistician and chief of enterprise management of Linyi City Cannery (臨沂罐市頭廠).

Biographical Details of Directors and Senior Management

Mr. Sun Lei (孫磊), aged 40, was appointed as deputy general manager of Shandong Tiantong in February 2019. He is responsible for overseeing matters relating to finance and warehousing of Shandong Tiantong. He joined Shandong Tiantong in January 2003 as a deputy manager in the finance department. Mr Sun graduated from Linyi Business School of Shandong Province (山東省臨沂商業學校) in June 1995 majoring in accountancy and statistics. He also graduated from Party School of Shandong Province Linyi City Committee of Communist Party of China (中共山東臨沂市委黨校) majoring in economics and management in June 1998. Between December 1995 and January 2003, he was the statistician and finance manager of Linyi City Cannery (臨沂市罐頭廠).

Mr. Wang Chuanjian (王傳建), aged 45, was appointed as deputy general manager of Shandong Tiantong in February 2019. He is responsible for overseeing matters relating to production and procurement of Shandong Tiantong. He joined Shandong Tiantong in January 2003. Mr Wang graduated from Heze Agricultural School (菏澤農業學校) in July 1994 majoring in agricultural product storage and processing. Between October 1994 and January 2003, he was the sealing unit leader, workshop quality inspector, deputy manager of production technique and head of workshop of Linyi City Cannery (臨沂市罐頭廠).

Mr. Li Jinrong (李金榮), aged 41, was appointed as general manager of Yichang Tiantong since February 2018. He is responsible for overall management matters of Yichang Tiantong. Mr Li has been engaged in the production and sales of beverages and processed fruit industry for over 15 years. Mr Li received the recognition as a criminal investigation specialist in Hubei Province Jingzhou People's Police School and an administration management certification in Hubei Normal University. He is currently studying for Bachelor of Laws in Wuhan University of Science and Technology on a part time basis.

Independent Auditor's Report



羅兵咸永道

To the Shareholders of Tianyun International Holdings Limited

(incorporated in the British Virgin Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Tianyun International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 43 to 100, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Independent Auditor's Report

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Valuation of investment properties
- Impairment of trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Valuation of investment properties</p> <p><i>Refer to Notes 3.3(b), 4(a) and 16 to the consolidated financial statements</i></p> <p>As at 31 December 2019, the Group's investment properties portfolio, includes part of the integrated building centre amounted to RMB30,300,000. The fair value loss on the Group's investment properties amounted to RMB4,164,000 for the year ended 31 December 2019.</p> <p>Management engaged an independent valuer to estimate the fair value of the Group's investment properties as at 31 December 2019 based on the direct comparison method.</p> <p>The methodology and key assumptions used in the independent valuation of investment properties requires significant judgement and estimation. In addition, the balance of investment properties is significant. Therefore, we focused on this area in our audit.</p>	<p>Our audit procedures in relation to key assumptions used in the valuation of investment properties included:</p> <ul style="list-style-type: none"> • Evaluated the independent valuer's competence, capabilities and objectivity by considering their qualifications, relevant experiences and relationship with the Group; • Obtained the valuation reports and held meetings with the independent valuer, together with our own experts in property valuation, to discuss and evaluate the valuation methodology and key assumptions adopted, focusing on market comparables based on recent transacted prices of comparable properties, after adjustments for the differences in their locations and sizes; • Assessed the market comparables used by the independent valuer, on a sample basis, by benchmarking these against comparable market transactions for similar properties and locations. <p>We found the methodology and key assumptions used in the valuation of investment properties were supported by the available evidence.</p>

Independent Auditor's Report

Key Audit Matters *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Impairment of trade receivables</p> <p><i>Refer to Notes 3.1(b), 4(d) and 20(b) to the consolidated financial statements</i></p> <p>As at 31 December 2019, the balance of trade receivables was RMB181,997,000, of which RMB42,849,000 is from small and medium enterprises and individual customers. The provision for impairment of trade receivables amounted to RMB691,000.</p> <p>Management applied HKFRS 9 by using the simplified approach to measure the lifetime expected loss allowance for all its trade receivables. In developing the loss allowance of trade receivables, management used judgement in making the assumptions about the risk of default and expected loss rate with reference to the historical payment profiles of sales and the corresponding historical credit losses rate and current and forward-looking information on macroeconomic factors. When assessing expected credit losses of new small and medium enterprises and individual customers with no historical data, management also considered external industry information in developing the loss allowance.</p> <p>Impairment of trade receivables was made based on an assessment of the recoverability of trade receivables. Provision for impairment of trade receivables involved management's judgement and uncertainties of the actual outcome which may be different from original estimates.</p> <p>We focused on this area because of its significance to the consolidated financial statements and the estimation and judgement involved in the determination of the recoverable amounts of trade receivables.</p>	<p>Our audit procedures on management assessment of the impairment of trade receivables included:</p> <ul style="list-style-type: none"> • Obtained, understood and evaluated management's provision for loss allowance assessment, including the methodology of the assessment; • Analysed the aging profile and historical loss allowance on trade receivables to assess the reasonableness of expected loss calculated by management; • Challenged management for the assumptions and data used in assessing the expected loss rate, corroborated explanations with underlying documentation and correspondence with customers; • Interviewed supervisors in finance department and sales department to corroborate their explanations on the doubtful receivable balance on a sample basis to evaluate whether any increase in credit risk which may trigger further specific provision; • Compared the subsequent collection with the original estimation to evaluate the reliability and accuracy of management judgement and estimates in the impairment assessment. <p>Based on the procedures described, we considered the judgements and estimates applied in the impairment of trade receivables was supported by the available evidence.</p>

Independent Auditor's Report

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

(continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Cecilia, Lai Ting Yau.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 17 April 2020

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	Year ended 31 December	
		2019 RMB'000	2018 RMB'000
Revenue	6	1,062,767	940,507
Cost of sales	7	(766,726)	(677,240)
Gross profit		296,041	263,267
Other income	6	4,753	849
Other losses, net	6	(2,539)	(2,619)
Selling and distribution expenses	7	(18,295)	(14,290)
General and administrative expenses	7	(45,980)	(34,859)
Operating profit		233,980	212,348
Finance income		4,185	1,437
Finance costs		(13,144)	(13,405)
Finance costs – net	9	(8,959)	(11,968)
Profit before income tax		225,021	200,380
Income tax expense	10	(55,960)	(52,853)
Profit and total comprehensive income, net of tax for the year		169,061	147,527
Profit and total comprehensive income attributable to:			
Equity holders of the Company		169,090	147,527
Non-controlling interest		(29)	–
		169,061	147,527
Earnings per share for profit attributable to equity holders of the Company for the year (expressed in RMB cents)			
– Basic earnings per share	11	17.20	15.07
– Diluted earnings per share	11	17.19	15.04

The notes on pages 47 to 100 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

	<i>Note</i>	As at 31 December 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets	14	81,079	–
Leasehold land and land use rights	13	–	66,521
Property, plant and equipment	15	286,435	262,167
Investment properties	16	30,300	34,100
Prepayments	20	30,000	55,660
Goodwill	35	1,104	1,104
Total non-current assets		428,918	419,552
Current assets			
Inventories	18	101,951	90,250
Trade and other receivables	20	187,583	115,430
Restricted cash	21	1,407	–
Cash and cash equivalents	21	471,992	464,590
Total current assets		762,933	670,270
Total assets		1,191,851	1,089,822
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	22	168,437	207,383
Reserves	23	725,694	558,684
		894,131	766,067
Non-controlling interest		(29)	–
Total equity		894,102	766,067
LIABILITIES			
Non-current liabilities			
Bank borrowing	28	–	27,535
Contingent consideration payable	35	6,962	15,550
Lease liabilities	14	355	–
Deferred tax	30	3,067	–
Total non-current liabilities		10,384	43,085
Current liabilities			
Trade and bills payables	26	29,066	26,951
Accruals and other payables	27	22,599	19,163
Amount due to a substantial shareholder	34(b)	20,301	88,826
Amount due to the non-controlling interest	34(b)	103	–
Bank and other borrowings	28	203,445	130,234
Contingent consideration payable	35	6,963	–
Lease liabilities	14	410	–
Current income tax liabilities		4,478	15,496
Total current liabilities		287,365	280,670
Total equity and liabilities		1,191,851	1,089,822

The notes on pages 47 to 100 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 43 to 100 were approved by the Board of Directors on 17 April 2020 and were signed on its behalf.

Mr. Yang Ziyuan
Director

Mr. Sun Xingyu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity holders of the Company							
	Share Capital RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Revaluation reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2018	232,459	10,431	(3,100)	303	22,500	2,923	388,396	653,912
Comprehensive income								
Profit for the year	-	-	-	-	-	-	147,527	147,527
Total comprehensive income for the year	-	-	-	-	-	-	147,527	147,527
Transaction with owners								
Dividends paid relating to 2017 (Note 12)	(10,326)	(10,431)	-	-	-	-	-	(20,757)
Dividends paid relating to 2018 (Note 12)	(14,750)	-	-	-	-	-	-	(14,750)
Transfer of reserves (Note 23)	-	-	-	-	32,962	-	(32,962)	-
Employees share option scheme (Note 24):								
- release of reserve upon share options lapsed	-	-	-	-	-	(676)	676	-
- share-based compensation expenses	-	-	-	-	-	135	-	135
Total transactions with owners	(25,076)	(10,431)	-	-	32,962	(541)	(32,286)	(35,372)
Balance at 31 December 2018	207,383	-	(3,100)	303	55,462	2,382	503,637	766,067

	Attributable to equity holders of the Company									
	Share Capital RMB'000	Merger reserve RMB'000	Revaluation reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share held under share award scheme RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at 1 January 2019	207,383	(3,100)	303	55,462	2,382	-	503,637	766,067	-	766,067
Comprehensive income										
Profit for the year	-	-	-	-	-	-	169,090	169,090	(29)	169,061
Total comprehensive income for the year	-	-	-	-	-	-	169,090	169,090	(29)	169,061
Transaction with owners										
Dividends paid relating to 2018 (Note 12)	(23,189)	-	-	-	-	-	-	(23,189)	-	(23,189)
Dividends paid relating to 2019 (Note 12)	(15,757)	-	-	-	-	-	-	(15,757)	-	(15,757)
Transfer of reserves (Note 23)	-	-	-	17,199	-	-	(17,199)	-	-	-
Employees share option scheme:										
- acquisition of shares held under share award scheme (Note 25)	-	-	-	-	-	(2,080)	-	(2,080)	-	(2,080)
- release of reserve upon share options lapsed (Note 24)	-	-	-	-	(1,067)	-	1,067	-	-	-
Total transactions with owners	(38,946)	-	-	17,199	(1,067)	(2,080)	(16,132)	(41,026)	-	(41,026)
Balance at 31 December 2019	168,437	(3,100)	303	72,661	1,315	(2,080)	656,595	894,131	(29)	894,102

The notes on pages 47 to 100 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	Year ended 31 December	
		2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	219,573	219,365
Interest paid		(13,144)	(12,639)
Income tax paid		(63,911)	(39,268)
Net cash generated from operating activities		142,518	167,458
Cash flows from investing activities			
Purchases of property, plant and equipment		(45,382)	(10,662)
Prepayment for property, plant and equipment		(30,000)	(13,660)
Proceeds from disposal of property, plant and equipment	31(b)	22	–
Cash paid for business acquisition		–	(14,597)
Cash acquired from business combination	35	–	198
Interest received		4,185	1,437
Net cash used in investing activities		(71,175)	(37,284)
Cash flows from financing activities			
Cash received from a substantial shareholder		20,301	88,826
Repayment of amount due to a substantial shareholder		(90,340)	–
Repayments of loans from a leasing company		–	(13,677)
Proceeds from bank and other borrowings		148,831	129,334
Repayments of bank and other borrowings		(103,743)	(78,453)
Proceeds from issuance of convertible bonds		–	26,032
Repayments of convertibles bonds		–	(90,540)
Principal elements of lease payments		(66)	–
Acquisition of the Company's shares under share award scheme	25	(2,080)	–
Transaction costs paid for issuance of convertible bonds	9	–	(565)
Transaction costs paid for bank borrowings	9	–	(201)
Dividends paid to shareholders	12	(38,946)	(35,507)
Net cash (used in)/generated from financing activities		(66,043)	25,249
Net increase in cash and cash equivalents		5,300	155,423
Cash and cash equivalents at beginning of year		464,590	309,167
Exchange gains on cash and cash equivalents		2,102	–
Cash and cash equivalents at end of year	21	471,992	464,590

The notes on pages 47 to 100 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1 General information of the Group and Group organisation

1.1 General information

The Group is principally engaged in the manufacturing and sales of processed fruit products and trading of fresh fruits.

The Company is an investment holding company incorporated in the British Virgin Islands on 8 September 2011 with limited liability. The address of its registered office is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands, VG1110.

The Company has listed its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 July 2015.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Hong Kong Companies Ordinance Cap.622, and have been prepared under the historical cost convention as modified by the valuation of investment properties (Note 16) and contingent consideration payable (Note 35), which are stated at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The Group has adopted the following new standard, amendments to standards and interpretation for the accounting period beginning on 1 January 2019:

- Amendments to HKFRS 9, "Prepayment Features with Negative Compensation"
- HKFRS 16, "Leases"
- Amendments to HKAS 19, "Plan Amendment, Curtailment or Settlement"
- Amendments to HKAS 28, "Long-term interests in Associates and Joint Ventures"
- HK(IFRIC) — Int 23, "Uncertainty over Income Tax Treatments"
- Annual Improvements 2015-2017 Cycle, "Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23"

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(a) New and amended standards adopted by the Group *(continued)*

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2.

The adoption of the other new standards, interpretation and amendments to existing standards did not have a significant effect on the financial statements or result in any significant changes in the Group's significant accounting policies, except for certain changes in presentation and disclosures.

(b) New and amended standards that have been issued but are not effective for the financial year beginning 1 January 2019 and have not been early adopted

- Amendments to HKAS 1 and HKAS 8, "Definition of material" ¹
- Amendments to HKAS 39, HKFRS 7 and HKFRS 9, "Hedge Accounting" ¹
- Amendments to HKFRS 3, "Definition of a Business" ¹
- Amendments to HKFRS 10 and HKAS 28, "Sales or Contribution of Assets between an Investor and its Associate or Joint Venture" ³
- Conceptual Framework for Financial Reporting 2018, "Revised Conceptual Framework for Financial Reporting" ¹
- HKFRS 17, "Insurance Contracts" ²

¹ effective for annual period beginning on or after 1 January 2020

² effective for annual period beginning on or after 1 January 2021

³ to be determined

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Change in accounting policies

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's financial statements.

Nature of change

As indicated in Note 2.1 above, the Group has adopted HKFRS 16 "Leases" retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.29.

Impact

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.41%. For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date. No remeasurement to the lease liabilities was recognised as adjustments to the related right-of-use assets immediately after the date of initial application. There is no net impact on retained earnings on 1 January 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies (continued)

2.2 Change in accounting policies (continued)

Impact (continued)

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Reliance on previous assessment on whether leases are onerous.
- The accounting for operating lease with a remaining lease term of less than 12 months as at 1 January 2019 as short term leases.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 Determining whether an Arrangement contains a Lease.

(ii) Measurement of lease liabilities

	2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	352
Less:	
Short-term leases with remaining lease term ending on or before 31 December 2019	(352)
Lease liabilities recognised as at 1 January 2019	–

(iii) Measurement of right-of-use assets

As at 1 January 2019, the leasehold land and land use right of RMB66,521,000 was reclassified to "Right-of-use assets".

The following table summarises the impacts on the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:	As at 31 December 2018 RMB'000	Effects of the adoption of HKFRS 16 RMB'000	As at 1 January 2019 RMB'000
Non-current assets			
Leasehold land and land use rights	66,521	(66,521)	–
Right-of-use assets	–	66,521	66,521

(iv) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.3 Consolidation

Subsidiaries

Subsidiaries are all entities (including a structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.4).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

2.4 Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer ("CEO") of the Group that makes strategic decisions.

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.8 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Shorter of remaining period of the lease or useful lives
Building	20 years
Furniture and fixtures	5 years
Plant and machinery	10 years
Motor vehicles	5 -10 years
Office and computer equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.12).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts, and are recognised within 'General and administrative expenses' in the statement of comprehensive income.

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all attributable costs of bringing the asset to working condition for its intended use. This includes direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs will cease and the construction in progress is transferred to appropriate categories within property, plant and equipment when the construction activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress.

2.9 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies of the Group, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and ceased once the asset is substantially complete, or suspended if the development of the asset is suspended.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.9 Investment properties *(continued)*

After initial recognition, investment property is carried at fair value. Fair value is based on valuations carried out by professional valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of leasehold land, if any, classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is capitalised to the carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated statement of comprehensive income during the financial period in which they are incurred.

Changes in fair values of investment property are recognised in the consolidated statement of comprehensive income. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in the consolidated statement of comprehensive income to the extent that it reverses a previous impairment loss, with any remaining increase recognised directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is charged to the consolidated statement of comprehensive income. Upon the subsequent disposal of the investment property, any revaluation reserve balance of the property is transferred to retained profits and is shown as a movement in equity.

2.10 Leasehold land and land use rights

All land in the People's Republic of China (the "PRC") is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as leasehold land and land use rights, which are amortised over the lease periods using the straight-line method. The leasehold land and land use rights are stated at historical cost less accumulated amortisation and impairment losses. When there is impairment, the impairment is expensed in the consolidated statement of comprehensive income.

2.11 Goodwill

Goodwill is measured as described in Note 2.4. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating companies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.12 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.13 Investments and other financial assets *(continued)*

(iii) Measurement *(continued)*

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories to classify the debt instruments:

(1) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated income statement. Impairment losses are charged within operating profit in the consolidated income statement.

(2) Fair value through other comprehensive income

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in the consolidated income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment expenses are presented as separate line item in the consolidated income statement.

(3) Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in the consolidated income statement in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in the consolidated income statement as other gains, net when the Group's right to receive payments is established.

Changes in the fair value of FVPL are recognised in other gains, net in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.13 Investments and other financial assets *(continued)*

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and other receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2.20 for further information about the group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

2.17 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Cash that restricted from withdrawal, use or pledged as security is reported separately on the consolidated statement of financial position, and is not included in the total cash and cash equivalents in the consolidated statement of cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.18 Share capital and shares held for employee share scheme

Ordinary shares are classified as equity.

Where any group company purchases the Group's equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the equity holders of the Group until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the equity holders of the Group.

2.19 Trade, bills and other payables

Trade, bills and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade, bills and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade, bills and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.22 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bond that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The entire convertible bond is designated as financial liabilities at fair value through profit or loss. It is initially recognised at fair value and subsequently carried at fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.23 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.23 Current and deferred income tax *(continued)*

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.24 Employee benefits

(a) Employee leave entitlements

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF"), a defined contribution plan. Under the MPF, each of the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK\$1,500 per person per month and any excess contributions are voluntary.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the provincial governments.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.25 Share-based payments

Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.26 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.27 Revenue recognition

(a) Sales of goods – whole sale

The Group manufactures and sells a range of processed fruit products and fresh fruit in the market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has 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.

Revenue from whole sale is recognised based on the price specified in the contract, net of the volume discounts which are determined by the accrual sales made up to each financial year end. No element of financing is deemed present as the sales are made with a credit term of 30-60 days, which is consistent with market practice. The Group has not significant obligation replace fruit products under the standard warranty terms.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Sale of goods – retail

The Group operates a retail store selling fruit juice. Revenue from the sale of goods is recognised when a Group entity sells a product to the customer. Payment of the transaction price is due immediately when the customer purchases the fruit juice and takes delivery in store.

(c) Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 9 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(d) Rental income

The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2.28 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.29 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability, if any.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and makes adjustments specific to the lease.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2 Summary of significant accounting policies *(continued)*

2.29 Leases *(continued)*

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office equipment.

Lease income from operating leases where the Group is a lessor is recognised in consolidated statement of comprehensive income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments to hedge the risk exposures.

Financial risk management is carried out by the finance department under the supervision of the CEO and the board of directors of the Company. The CEO and the board of directors provides principles for overall risk management.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars ("USD") and Hong Kong dollars ("HK\$"). Foreign exchange risk arises from future commercial transactions, recognised financial assets and liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2019, if RMB had strengthened/weakened by 5% against USD with all other variables held constant, the post-tax profit for the year would have been approximately RMB86,000 lower/higher (2018: RMB1,263,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of USD denominated trade receivables, cash and cash equivalents and convertible bond.

As at 31 December 2019, if RMB had strengthened/weakened by 5% against HK\$ with all other variables held constant, the post-tax profit for the year would have been approximately RMB4,063,000 higher/lower (2018: RMB6,743,000 higher/lower), mainly as a result of foreign exchange losses/gains on translation of HK\$ denominated amount due to substantial shareholder and bank and other borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank balances at floating interest rates and bank and other borrowings. Bank borrowing obtained at variable rate exposes the Group to cash flow interest rate risk which is partially offset by bank balances held at variable rates. The Group's other borrowings and convertible bond at fixed rates expose the Group to fair value interest rate risk. During 2019 and 2018, the Group's bank and other borrowings were denominated in HK\$ and RMB, and its convertible bonds were denominated in USD.

Details of the Group's bank and other borrowings and convertible bonds are disclosed in Note 28 and Note 29 respectively. The cash deposits placed with banks generate interest at the prevailing market interest rates.

As at 31 December 2019, if interest rate on bank borrowings had been 50 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB320,000 (2018: RMB116,000) lower/higher, mainly as a result of higher/lower of interest expenses on variable rate bank borrowing.

(b) Credit risk

Credit risk of the Group mainly arises from cash and cash equivalents, restricted cash and trade and other receivables. The maximum exposure to credit risk is therefore represented by the carrying amount of each financial assets as stated in the consolidated and company statements of financial position. Management has policies in place to monitor the exposures to these credit risks on an on-going basis.

(i) Risk management

Credit risk is managed on a group basis. As at 31 December 2019 and 2018, cash and cash equivalents and restricted cash are all deposited with reputable banks. The Group has not incurred significant loss from non-performance by these parties in the past and the identified impairment loss is close to zero.

The Group has risk control procedures to assess the credit quality of the wholesale customers, small and medium enterprises and individual customers, taking into account its financial position, past experience and other factors.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. As at 31 December 2019, top 3 trade receivables of the Group accounted for approximately 14% (2018: 23%) to the total trade receivables of the Group.

To manage this risk, management has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews regularly the recoverable amount of each individual trade receivable by taking into account of the customers' profiles and subsequent settlement to ensure that adequate impairment is made for the irrecoverable amounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets

The Group's trade receivables are subject to the expected credit loss model. While cash and cash equivalents, restricted cash and other receivable are also subject to the impairment requirements of HKFRS 9 "Financial Instruments", the identified impairment loss was immaterial.

Trade receivables

The group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group's trade receivables have been grouped into the following categories based on the common risk characteristics:

- from corporate customers, and
- from small and medium enterprises and individuals

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. When assessing the expected credit losses of new customers with no historical data, the Group considered external industry information in developing the historical loss rate. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group has identified the GDP of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2019 was determined as follows for trade receivables:

Trade receivables from corporate customers

31 December 2019	Current RMB'000	Less than 30 days past due RMB'000	More than 30 days past due RMB'000	Total RMB'000
Expected loss rate	0.20%	–	–	
Gross carrying amount	139,118	–	–	139,118
Loss allowance	278	–	–	278

Trade receivables from small and medium enterprises and individuals

31 December 2019	Current RMB'000	Less than 30 days past due RMB'000	More than 30 days past due RMB'000	Total RMB'000
Expected loss rate	0.96%	1.95%	–	
Gross carrying amount	42,849	30	–	42,879
Loss allowance	412	1	–	413

No provision for loss allowance was made to the trade receivables in the comparable period as there was no material credit risk inherent in the Group's outstanding receivable balance as at 31 December 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Trade receivables (continued)

The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	2019 RMB'000	2018 RMB'000
Opening loss allowance at 1 January	–	–
Increase in loss allowance recognised in profit or loss during the year	691	–
Closing loss allowance at 31 December	691	–

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 1 year past due.

Impairment losses on trade receivables are charged within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position. The Group aims to maintain flexibility in funding by keeping sufficient bank balances and committed credit lines available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
At 31 December 2019			
Trade and bills payables	29,066	–	29,066
Other payables	7,732	–	7,732
Bank and other borrowings	209,558	–	209,558
Amount due to a substantial shareholder	20,579	–	20,579
Amount due to the non-controlling interest	103	–	103
Lease liabilities	433	361	794
	267,471	361	267,832
At 31 December 2018			
Trade payables	26,951	–	26,951
Other payables	6,837	–	6,837
Bank and other borrowings	135,531	29,523	165,054
Amount due to a substantial shareholder	93,385	–	93,385
	262,704	29,523	292,227

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 Financial risk management (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debts divided by total equity. Total debts are calculated by aggregating the bank and other borrowings and the non-trade nature of amount due to a substantial shareholder as at 31 December 2019 and 2018.

The gearing ratios were as follows:

	2019 RMB'000	2018 RMB'000
Total debts	223,746	246,595
Total equity	894,102	766,067
Gearing ratio	25.0%	32.1%

The decrease in the gearing ratio during 2019 was resulted primarily from the repayment of the non-trade nature of amount due to a substantial shareholder.

3.3 Fair value estimation

(a) Financial assets and liabilities

Financial instruments that are measured in the consolidated statement of financial position at fair value are disclosed by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Liability	Level 3	
	2019 RMB'000	2018 RMB'000
Contingent consideration payable	13,925	15,550

There were no transfers between levels 1, 2 and 3 during the year.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 Financial risk management *(continued)*

3.3 Fair value estimation *(continued)*

(a) Financial assets and liabilities *(continued)*

The detail on fair value measurement of the contingent consideration payable was set out in Note 35.

The fair values of the Group's trade and other receivables, restricted cash, cash and cash equivalents, trade, bills and other payables, amount due to a substantial shareholder, amount due to the non-controlling interest and bank and other borrowings approximate their fair values due to their short maturities.

(b) Non-financial assets and liabilities

Judgements and estimates have been made in determining the fair values of the investment properties that are recognised and measured at fair value in the financial statements. All of the fair value measurements of the Group's investment properties were categorised into level 3 of the fair value hierarchy.

Valuation process and technique used to determine level 3 fair values

The Group's investment properties were valued by an independent professional valuer, Roma Appraisals Limited who hold recognised relevant professional qualifications and have recent experience in the locations and segments of the investment properties valued, on an open market value basis at the end of every financial reporting period. For all investment properties, their current use equates to the highest and best use.

Fair value of investment properties is generally derived using the direct comparison method. Direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration. There were no change to the valuation techniques during the year.

3.4 Offsetting financial assets and financial liabilities

The Group has no financial assets and financial liabilities, which is subject to offsetting, enforceable master netting arrangements and similar agreements.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Valuation of investment property

The fair value of each investment property is individually determined at each balance sheet date by independent valuers on a market value assessment. The fair value is based on the direct comparison method with reference to current sale prices in an active market for properties of similar nature, condition or location. In the absence of such information, the valuer determines the amount within a range of reasonable fair value estimates. In making its judgement, the valuer considers information from a variety of sources including current sale prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences.

Judgement is required to determine the principal valuation assumptions to determine the fair value of the investment properties.

At 31 December 2019, if the market value of investment properties had been 10% higher/lower with all other variables held constant, the carrying value of the Group's investment properties would have been RMB3 million higher/lower and the Group's profit before tax would have been increased/decreased by RMB3 million.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4 Critical accounting estimates and judgements *(continued)*

(b) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Fair value of contingent consideration payable

The fair value of contingent consideration payable was determined by using valuation techniques as the date of acquisition and the end of each financial reporting period. 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.

(d) Impairment of trade receivables

The Group makes provision for expected credit losses of trade receivables based on an estimate of the recoverability of these receivables. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of receivables and the provision for expected credit losses in the period in which such estimate has been changed.

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 Group's past history or external industry information, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.1(b).

5 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 CEO of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5 Segment information (continued)

The chief operating decision-maker assesses the performance of the business based on a measure of profit after income tax and considers the business 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 trading of fresh fruits and processed fruit products, and segment information are not presented.

The Company is domiciled in the British Virgin Islands while the Group operates its business in the PRC. For the year ended 31 December 2019, the Group's revenue of RMB1,019,913,000 (2018: RMB864,058,000) was generated from domestic and overseas customers based in the PRC and paid in RMB, and the Group's revenue of RMB42,854,000 (2018: RMB76,449,000) was generated from direct overseas customers paid in foreign currencies. Most of the non-current assets were located in the PRC.

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

No single customer contributed over 10% of the Group's total Revenue for the year ended 31 December 2019 and 2018.

6 Revenue, other income and other losses, net

The Group is principally engaged in the manufacturing and sales of processed fruits products and trading of fresh fruits.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue recognised at a point in time		
Domestic sales	1,019,913	864,058
Direct overseas sales	42,854	76,449
Total sale of goods	1,062,767	940,507
Other income		
Government subsidies	4,061	307
Rental income	657	439
Sundry income	35	103
Total other income	4,753	849
Other losses, net		
Re-measurement on convertible bonds	–	(4,973)
Fair value (loss)/gain on investment properties	(4,164)	100
Fair value change of the contingent consideration payables	1,625	2,254
Total other losses, net	(2,539)	(2,619)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

7 Expenses by nature

Expenses included in 'cost of sales', 'selling and distribution expenses' and 'general and administrative expenses' are analysed as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Auditors' remuneration		
– Audit services	2,561	2,402
– Non-audit service	394	264
Cost of inventories sold	708,973	621,567
Depreciation of property, plant and equipment (Note 15)	19,463	18,161
Depreciation of right-of-use assets (Note 14)	1,861	–
Advertisement and promotion expenses	5,076	1,863
Amortisation of leasehold land and land use rights (Note 13)	–	1,688
Employee benefit expenses (including directors' emoluments) (Note 8)	61,827	49,435
Legal and professional fees	1,728	1,540
Loss on disposals of property, plant and equipment (Note 31(b))	1,265	37
Lease expenses	336	441
Land taxes, surcharges and other taxes	1,096	8,839
Research and development	2,392	1,519
Transportation expenses	5,996	7,341
Foreign exchange loss	3,867	2,421
Net impairment losses on financial assets	691	–
Others	13,475	8,871
Total cost of sales, selling and distribution expenses and general and administrative expenses	831,001	726,389

8 Employee benefit expenses (including directors' emoluments)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Wages and salaries	55,206	44,665
Discretionary bonuses	2,869	1,715
Social security costs for the PRC employees	3,659	2,864
Defined contribution for Hong Kong employees – MPF	93	56
Share-based compensation expenses (Note 24)	–	135
	61,827	49,435

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2019 include two directors (2018: two) whose emoluments are reflected in the analysis shown in Note 37. The emoluments paid/payable to the remaining three (2018: three) individuals are as follows:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

8 Employee benefit expenses (including directors' emoluments) (continued)

(a) Five highest paid individuals (continued)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Basic salaries, allowances and benefits in kind	1,624	1,326
Discretionary bonuses	17	23
Social security costs	22	28
Defined contribution – MPF	32	35
Share-based compensation expenses	–	10
	1,695	1,422

No emoluments were paid by the Group to these individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

The emoluments of the highest paid individuals fell within the following bands:

	Number of individuals	
	2019	2018
Emolument bands (in HK\$)		
Nil to HK\$1,000,000	2	2
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	–

9 Finance costs – net

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Finance income		
– Interest income on short-term bank deposits	4,185	1,437
Finance costs		
– Interest expenses on other borrowings	(4,972)	(863)
– Interest expenses on bank borrowings	(8,166)	(6,820)
– Interest expenses on convertible bonds	–	(4,956)
– Interest expenses on lease liabilities	(6)	–
– Transaction costs for issuance of convertible bonds	–	(565)
– Transaction costs for bank borrowings	–	(201)
	(13,144)	(13,405)
Finance costs – net	(8,959)	(11,968)

Notes to the Consolidated Financial Statements

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10 Income tax expense

British Virgin Islands (“BVI”) income tax

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

Hong Kong profits tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5% on the estimated assessable profits for the years ended 31 December 2019 and 2018. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the years.

PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% on the profits for the PRC incorporated entities for the years ended 31 December 2019 and 2018, 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.

PRC withholding tax

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on any dividends distributable by its subsidiaries established in the PRC.

At 31 December 2019, the undistributed profits of the Group’s subsidiaries in the PRC that subject to the temporary differences amounted to RMB666,176,000 (2018: RMB529,791,000).

Deferred tax liabilities have not been recognised for the retained earnings of its subsidiaries as at 31 December 2017 as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed by these subsidiaries in the foreseeable future. Therefore the retained earnings before 2017 would be retained for future development of its subsidiaries in the PRC. The Group has recognised PRC withholding tax since the year ended 31 December 2018.

The income tax expense of the Group for the years is analysed as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current income tax:		
PRC corporate income tax	54,465	51,281
Withholding tax relating to PRC subsidiaries:		
Provision for the year (<i>Note 30</i>)	1,495	1,572

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

10 Income tax expense (continued)

PRC withholding tax (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the domestic tax rate applicable to profits of the Group's subsidiaries as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before income tax	225,021	200,380
Tax calculated at domestic tax rates applicable to profits in the respective countries	56,255	52,697
Effect of different taxation rates in other countries	1,216	–
Income not subject to tax	(8,438)	(7,125)
Expenses not deductible for tax purposes	4,749	2,755
Withholding tax relating to PRC subsidiaries	1,495	1,572
Tax losses not recognised	1,176	2,954
Utilisation of tax losses previously not recognised	(493)	–
	55,960	52,853

11 Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue, including the weighted average number of issuable shares of which all necessary conditions are satisfied under the consideration share arrangement (Note 35), deducting the weighted average number of shares held under the share award scheme during the years.

	Year ended 31 December	
	2019	2018
Profit attributable to equity holders of the Company (RMB'000)	169,090	147,527
Weighted average number of ordinary shares in issue (thousand)	977,462	977,462
Weighted average number of issuable shares (thousand)	7,919	1,727
Less: weighted average of shares held under share award scheme (thousand)	(2,167)	–
	983,214	979,189
Basic earnings per share (RMB cents)	17.20	15.07

(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. As at 31 December 2019 and 2018, the Group has share options which may result in dilutive potential ordinary shares. 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 year) for the same total proceeds is the number of shares issued for no consideration.

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11 Earnings per share (continued)

(b) Diluted (continued)

The calculation of diluted earnings per share for the year is based on the following:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit attributable to shareholders of the Company for calculation of basic earnings per share and diluted earnings per share	169,090	147,527
	Number of shares	
	2019	2018
Weighted average number of shares for calculation of basic earnings per share (thousand)	983,214	979,189
Effect of dilutive potential shares:		
Share options of the Company assumed to be exercised (thousand)	511	1,762
Weighted average number of shares for calculation of diluted earnings per share (thousand)	983,725	980,951
Diluted earnings per share (RMB cents)	17.19	15.04

12 Dividends

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Final dividend paid during the year:		
2018 final dividend HK\$0.027 per ordinary share	23,189	20,757
Interim dividend declared and paid during the year:		
2019 interim dividend of HK\$0.018 per ordinary share (2018: HK\$0.017 per ordinary share)	15,757	14,750
Final dividend declared after the year end:		
2019 final dividend of HK\$0.030 per ordinary share (2018: HK\$0.027 per ordinary share)	26,333	22,583

The Board has declared that an interim dividend of HK\$0.018 per share for the six months ended 30 June 2019 to shareholders whose names appear in the Register of Members on 29 November 2019.

On 30 March 2020, the board of directors proposed a final dividend of in respect of the year ended 31 December 2019 of approximately RMB26.3 million (2018: RMB22.6 million), representing HK\$0.030 per ordinary share (2018: HK\$0.027 per ordinary share). Such dividend is to be approved by the shareholders at the Annual General Meeting of the Company. This proposed final dividend is not reflected as a dividend payable as of 31 December 2019, but will be recorded as a distribution of reserves for the year ending 31 December 2020.

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For the year ended 31 December 2019

13 Leasehold land and land use rights

The Group's interests in leasehold land and land use rights represent the prepaid operating lease payments and their net book values are analysed as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
At 1 January	66,521	56,976
Impact on adoption of HKFRS 16	(66,521)	–
Acquisition of subsidiaries	–	11,233
Amortisation (<i>Note 7</i>)	–	(1,688)
At 31 December	–	66,521

Amortisation of leasehold land and land use rights of RMB1,359,000 have been included in 'cost of sales' and RMB329,000 have been charged in 'general and administrative expenses' for the year ended 31 December 2018.

As at 31 December 2018, the Group's leasehold land and land use rights were pledged to secure bank borrowings granted to the Group (*Note 28*).

14 Leases

This note provides information for leases where the Group is a lessee.

The Group obtains rights to control the use of office premise for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms with 2 years.

The Group also obtained land use rights through lease contracts with local government authorities with lease periods ranging from 41 to 50 years. The lease arrangements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

(a) Right-of-use assets

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
As at 1 January	–	–
Impact on adoption of HKFRS 16 (<i>Note</i>)	66,521	–
Inception of lease contracts	16,419	–
Depreciation (<i>Note 7</i>)	(1,861)	–
As at 31 December	81,079	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

14 Leases (continued)

(a) Right-of-use assets (continued)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Of which are:		
Leasehold land and land use rights	80,317	–
Office premises	762	–
	81,079	–

Depreciation of right-of-use assets of RMB1,502,000 have been included in 'cost of sales' and RMB359,000 have been charged in 'general and administrative expenses' for the year ended 31 December 2019.

As at 31 December 2019, the net book value of right-of-use assets amounted RMB64,803,000 have been pledged to secure bank borrowings granted to the Group (Note 28).

(b) Lease liabilities

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
As at 1 January	–	–
Impact on adoption of HKFRS 16	–	–
Inception of lease contracts	831	–
Finance costs on lease liabilities	6	–
Payment for lease liabilities (including interest)	(72)	–
As at 31 December	765	–
Of which are:		
Amount due for settlement within 12 months (shown under current liabilities)	410	–
Amount due for settlement after 12 months	355	–
	765	–

Note: Until 31 December 2018, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as "finance leases" under HKAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to Note 2.2.

(c) Short-term leases and not yet commenced lease

As at 31 December 2019, there is no total future lease payments for short-term leases (2018: RMB 352,000).

As at 31 December 2019 and 2018, no lease is committed but not yet commenced.

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15 Property, plant and equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office and computer equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2018								
Cost	95,076	73,971	238	63,997	4,978	6,000	1,670	245,930
Accumulated depreciation	(5,796)	(16,238)	(123)	(18,969)	(1,883)	(3,227)	-	(46,236)
Net book amount	89,280	57,733	115	45,028	3,095	2,773	1,670	199,694
Year ended 31 December 2018								
Opening net book amount	89,280	57,733	115	45,028	3,095	2,773	1,670	199,694
Acquisition of subsidiaries	63,153	-	88	6,179	335	227	27	70,009
Additions	-	4,806	78	3,021	22	280	2,455	10,662
Transfer	-	768	-	178	-	-	(946)	-
Disposals (Note 31)	-	-	-	(37)	-	-	-	(37)
Depreciation (Note 7)	(7,104)	(3,617)	(56)	(6,164)	(390)	(830)	-	(18,161)
Closing net book amount	145,329	59,690	225	48,205	3,062	2,450	3,206	262,167
At 31 December 2018								
Cost	158,229	79,545	404	73,338	5,335	6,507	3,206	326,564
Accumulated depreciation	(12,900)	(19,855)	(179)	(25,133)	(2,273)	(4,057)	-	(64,397)
Net book amount	145,329	59,690	225	48,205	3,062	2,450	3,206	262,167
Year ended 31 December 2019								
Opening net book amount	145,329	59,690	225	48,205	3,062	2,450	3,206	262,167
Additions	17,288	11,731	81	7,381	44	1,136	7,721	45,382
Transfer	(364)	3,206	-	-	-	-	(3,206)	(364)
Disposals (Note 31)	-	-	(2)	(1,252)	(20)	(13)	-	(1,287)
Depreciation (Note 7)	(7,527)	(3,786)	(52)	(6,731)	(455)	(912)	-	(19,463)
Closing net book amount	154,726	70,841	252	47,603	2,631	2,661	7,721	286,435
At 31 December 2019								
Cost	175,107	94,482	483	79,278	5,356	7,623	7,721	370,050
Accumulated depreciation	(20,381)	(23,641)	(231)	(31,675)	(2,725)	(4,962)	-	(83,615)
Net book amount	154,726	70,841	252	47,603	2,631	2,661	7,721	286,435

Depreciation of RMB11,040,000 (2018: RMB10,601,000) has been charged in 'cost of sales' and RMB8,423,000 (2018: RMB7,560,000) has been charged in 'general and administrative expenses' for the year ended 31 December 2019, respectively.

As at 31 December 2019, the net book value of buildings of RMB73,159,000 (2018: RMB77,123,000) was pledged to secure bank borrowings granted to the Group (Note 28).

As at 31 December 2019, no plant and machinery, office and computer equipment and furniture and fixtures amounted (2018: RMB24,790,000) was pledged to a leasing company for securing the Group's loans.

Construction in progress as at 31 December 2019 mainly comprises plants and production lines being constructing in the PRC (2018: same).

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16 Investment properties

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Opening balance at 1 January	34,100	34,000
Transfer from property, plant and equipment	364	–
Fair value change	(4,164)	100
	30,300	34,100

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Amounts recognised in profit or loss for investment properties		
Rental income	657	439
Fair value (loss)/gain recognised	(4,164)	100

Principal investment properties

Location	Approximate gross floor area (square meter)	Category of the lease term
Northside of Fenghuang Main Street, Westside of Wenquan Road, Linyi City, Shandong Province, the PRC	5,825m ² (2018: 5,733m ²)	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.

Information about fair value measurements using significant unobservable inputs

	Valuation techniques	Unobservable inputs	Range of unobservable inputs	
			As at 31 December 2019	As at 31 December 2018
Retail-Ground floor	Direct comparison	Adjusted market price (RMB/square meter)	5,000-6,500	5,500-7,000
Retail-others	Direct comparison	Adjusted market price (RMB/square meter)	3,500-5,000	4,000-5,500

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17 Subsidiaries

The following is a list of the principal subsidiaries as at 31 December 2019:

Name	Place of incorporation/ establishment and kind of legal entity	Nature of business and place of operation	Particulars of issued/ registered share capital	Effective equity interest held
<i>Directly held by the Company</i>				
Tianyi Holding Hong Kong Ltd.	Hong Kong, limited liability company	Investment holding and trading of processed fruit products in Hong Kong	100 ordinary shares of HK\$100	100%
<i>Indirectly held by the Company</i>				
臨沂同泰食品機械製造有限公司 (Linyi Tongtai Food Machine Manufacture Co., Ltd.)	The PRC, limited liability company	Manufacturing and trading of food machinery in the PRC	Registered and paid-in capital of USD39,500,000	100%
山東天同食品有限公司 (Shandong Tiantong Food Co., Ltd.)	The PRC, limited liability company	Manufacturing and sales of processed fruit products and trading of fresh fruits in the PRC	Registered and paid-in capital of RMB180,000,000	100%
天同食品(宜昌)有限公司 (Tiantong Food (Yichang) Ltd.)	The PRC, limited liability company	Manufacturing and sales of processed fruit products and trading of fresh fruits in the PRC	Registered capital of RMB100,000,000	100%
天韻食品(四川)有限公司 (Tianyun Food (Sichuan) Ltd.)	The PRC, limited liability company	Manufacturing and sales of food in the PRC	Registered capital of RMB200,000,000	70%

18 Inventories

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Raw materials	8,358	8,198
Work in progress	19,713	21,140
Finished goods	73,880	60,912
	101,951	90,250

The cost of inventories sold recognised as expense and included in 'cost of sales' amounted to RMB 708,973,000 (2018: RMB621,567,000) for the year ended 31 December 2019.

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19 Financial instruments by category

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Assets as per consolidated statement of financial position		
– Trade receivables	181,306	110,056
– Other receivables (excluding prepayments)	2,359	2,059
– Restricted cash	1,407	–
– Cash and cash equivalents	471,992	464,590
Liabilities as per consolidated statement of financial position		
– Trade and bills payables	29,066	26,951
– Other payables	7,732	6,837
– Amount due to substantial shareholder	20,301	88,826
– Amount due to the non-controlling interest	103	–
– Bank and other borrowings	203,445	157,769
– Lease liabilities	765	–

20 Trade and other receivables

	Note	At at 31 December	
		2019	2018
		RMB'000	RMB'000
Trade receivables		181,997	110,056
Less: loss allowance of trade receivables	(b)	(691)	–
Trade receivables, net	(a)	181,306	110,056
Prepayments	(c)	33,918	58,975
Other receivables	(c)	2,359	2,059
		217,583	171,090
Less: non-current portion:			
Prepayments for property, plant and equipment		(30,000)	(13,660)
Prepayments for land use rights		–	(42,000)
Current portion		187,583	115,430

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20 Trade and other receivables (continued)

(a) Trade receivables

The Group's credit terms granted to customers generally ranged from 30 to 60 days (2018: 30 to 120 days).

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Less than 30 days	111,472	56,748
31 to 60 days	69,805	52,114
61 to 90 days	29	998
91 to 120 days	–	116
121 to 180 days	–	80
	181,306	110,056

As at 31 December 2019, trade receivables of RMB29,000 were past due but not yet impaired (2018: RMB1,194,000). These relate to a number of independent customers for whom there is no recent history of default and based on past experience, the overdue amounts can be recovered.

The ageing analysis of these trade receivables, net of loss allowance based on due date is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Overdue		
Less than 30 days	29	998
31 to 60 days	–	116
61 to 91 days	–	80

The trade receivables are denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
RMB	179,894	100,742
USD	1,412	9,314
	181,306	110,056

The carrying values of trade receivables approximate their fair value. The Group does not hold any collateral as security.

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20 Trade and other receivables (continued)

(b) Impairment of trade receivables

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which use a lifetime expected loss allowance for all trade receivables. The Group also continuously monitors the credit risks by assessing the credit quality of respective counterparties, taking into account its financial position, past experience and other factors. When necessary, the Group will make specific provision for those balances which cannot be recovered apart from the general provision arise from the expected credit loss model. Note 3.1(b) provides for details about the calculation of these loss allowance.

The loss allowance for impaired trade receivables had been charged within operating profit in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

(c) Prepayments and other receivables

The carrying amounts of prepayments and other receivables approximate their fair values. The prepayments and other receivables are mainly denominated in RMB. Other receivables do not contain impaired assets.

21 Cash and cash equivalents and restricted cash

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash at banks and on hand	471,992	464,590

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
RMB	468,325	431,872
HK\$	3,361	16,763
USD	306	15,955
	471,992	464,590

RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business in the PRC.

As at December 2019, RMB1,407,000 restricted cash were held by bank for bills payable with original maturity of more than three months when acquired.

Notes to the Consolidated Financial Statements

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22 Share capital

Authorised ordinary share

Under the BVI Companies Act, there is no concept of authorised capital. The Company is authorised to issue an unlimited number of shares and the shares do not have any par value.

Issued and fully paid ordinary share

	Number of ordinary share	Share capital HK\$'000	Equivalent share capital RMB'000
At 1 January 2017	983,000,000	296,309	236,114
As at 31 December 2017 and 1 January 2018	977,462,000	292,211	232,459
Dividends paid relating to 2017 (<i>Note</i>)	–	(12,643)	(10,326)
Dividends paid relating to 2018 (<i>Note</i>)	–	(16,617)	(14,750)
As at 31 December 2018 and 1 January 2019	977,462,000	262,951	207,383
Dividends paid relating to 2018 (<i>Note</i>)	–	(26,391)	(23,189)
Dividends paid relating to 2019 (<i>Note</i>)	–	(17,554)	(15,757)
As at 31 December 2019	977,462,000	219,006	168,437

Note:

Distribution of share capital as dividends

During the year ended 31 December 2019, the Company has paid dividends relating to 2018 and 2019 (2018: 2017 and 2018) amounted RMB23,189,000 and RMB15,757,000 (2018: RMB20,757,000 and RMB14,750,000) respectively. Share capital amounted RMB38,946,000 (2018: RMB25,076,000) was distributed as dividends.

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23 Reserves

	Capital reserve RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000 <i>(Note)</i>	Revaluation reserve RMB'000	Share option reserve RMB'000	Retained earnings RMB'000	Total Reserves RMB'000
Balance at 1 January 2018	10,431	(3,100)	22,500	303	2,923	388,396	421,453
Profit for the year	-	-	-	-	-	147,527	147,527
Share-based compensation expenses	-	-	-	-	135	-	135
Transfer of reserves	-	-	32,962	-	-	(32,962)	-
Dividends paid	(10,431)	-	-	-	-	-	(10,431)
Release of reserve upon share options lapsed	-	-	-	-	(676)	676	-
Balance at 31 December 2018	-	(3,100)	55,462	303	2,382	503,637	558,684

	Merger reserve RMB'000	Statutory reserve RMB'000 <i>(Note)</i>	Revaluation reserve RMB'000	Share option reserve RMB'000	Share held under share award scheme RMB'000 <i>(Note 25)</i>	Retained earnings RMB'000	Total Reserves RMB'000
Balance at 1 January 2019	(3,100)	55,462	303	2,382	-	503,637	558,684
Profit for the year	-	-	-	-	-	169,090	169,090
Transfer of reserves	-	17,199	-	-	-	(17,199)	-
Acquisition of shares held under share award scheme	-	-	-	-	(2,080)	-	(2,080)
Release of reserve upon share options lapsed	-	-	-	(1,067)	-	1,067	-
Balance at 31 December 2019	(3,100)	72,661	303	1,315	(2,080)	656,595	725,694

Note:

Statutory reserve

According to the provisions of the articles of association of the Group's subsidiaries located in the PRC ("PRC subsidiaries"), the PRC subsidiaries shall first set aside 10% of the entity's profit attributable to owners after tax as indicated in their statutory financial statements for the statutory surplus reserve (except where the reserve has reached 50% of the entity's registered share capital) in each year. The PRC subsidiaries may also make appropriations from its profit attributable to shareholders to discretionary surplus reserve, provided it is approved by a resolution passed in a shareholders' general meeting. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends without the prior approval obtained from shareholders in a shareholders' general meeting under specific circumstances.

When the statutory surplus reserve is not sufficient to make good for any losses of the PRC subsidiaries from previous years, the current year profit attributable to owners shall be used to make good the losses before any allocations are set aside for the statutory surplus reserve. The statutory surplus reserve, the discretionary surplus reserve and the share premium of the PRC subsidiaries may be converted into share capital of the PRC subsidiaries provided it is approved by a resolution passed in a shareholders' general meeting and meets other regulatory requirements with the provision that the ending balance of the statutory surplus reserve does not fall below 25% of the registered share capital.

Statutory reserve during the years represents the statutory surplus reserve of the PRC subsidiaries amounting to RMB72,661,000 (2018: RMB55,462,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

24 Share-based payment

A share option scheme ("Share Option Scheme") was approved on 16 June 2015 by the shareholders of the Company. Share options are granted to selected employees. The options have a contractual option term of three years. The Company does not have a legal or constructive obligation to repurchase or settle the options in cash.

On 6 October 2015, options of 6,000,000 shares were conditionally granted under the Share Option Scheme and the exercisable period is from 1 January 2016 (five months following the listing date of the Company) to 31 December 2020.

On 21 April 2016, options of 7,700,000 shares were conditionally granted under the Share Option Scheme and the exercisable period is from 1 January 2017 to 31 December 2021.

No share option granted was exercised during the years ended 31 December 2019 and 2018.

- (a) The following table discloses details of the Company's share options held by employees and movements in such holdings for the year ended 31 December 2019:

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Outstanding at 1/1/2019 (thousands)	Lapsed during the year (thousands)	Outstanding at 31/12/2019 (thousands)
6 October 2015	1.7	6 October 2015 – 31 December 2016	1 January 2017 – 31 December 2019	1,500	(1,500)	-
6 October 2015	1.7	6 October 2015 – 31 December 2017	1 January 2018 – 31 December 2020	1,500	-	1,500
21 April 2016	0.97	21 April 2016 – 31 December 2016	1 January 2017 – 31 December 2019	3,850	(3,850)	-
21 April 2016	0.97	21 April 2016 – 31 December 2017	1 January 2018 – 31 December 2020	1,925	-	1,925
21 April 2016	0.97	21 April 2016 – 31 December 2018	1 January 2019 – 31 December 2021	1,925	-	1,925
				10,700	(5,350)	5,350

- (b) The following table discloses details of the Company's share options held by employees and movements in such holdings for the year ended 31 December 2018:

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Outstanding At 1/1/2018 (thousands)	Lapsed during the year (thousands)	Outstanding At 31/12/2018 (thousands)
6 October 2015	1.7	6 October 2015 – 31 December 2015	1 January 2017 – 31 December 2018	3,000	(3,000)	-
6 October 2015	1.7	6 October 2015 – 31 December 2016	1 January 2017 – 31 December 2019	1,500	-	1,500
6 October 2015	1.7	6 October 2015 – 31 December 2017	1 January 2018 – 31 December 2020	1,500	-	1,500
21 April 2016	0.97	21 April 2016 – 31 December 2016	1 January 2017 – 31 December 2019	3,850	-	3,850
21 April 2016	0.97	21 April 2016 – 31 December 2017	1 January 2018 – 31 December 2020	1,925	-	1,925
21 April 2016	0.97	21 April 2016 – 31 December 2018	1 January 2019 – 31 December 2021	1,925	-	1,925
				13,700	(3,000)	10,700

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

24 Share-based payment (continued)

- (c) Movements in the number of share options of the Share Option Scheme outstanding and the average exercise prices are as follows:

	2019		2018	
	Average exercise price in HK\$ per share option	Number of shares (thousands)	Average exercise price in HK\$ per share option	Number of shares (thousands)
At 1 January	1.18	10,700	1.29	13,700
Granted	–	–	–	–
Lapsed	1.17	(5,350)	1.70	(3,000)
At 31 December	1.17	5,350	1.18	10,700

The fair values were calculated using the Binomial Option Pricing model at the date of grant.

For the year ended 31 December 2019, there was no expenses for share options granted to employees (2018: RMB135,000 had been recognised as and included in “employee benefit expenses” in the consolidated statement of comprehensive income).

25 Share award scheme

On 4 September 2018, the Board approved the adoption of a share award scheme (the “Share Award Scheme”) to award the Company’s share (“Awarded Shares”) to eligible employees within the Group. Under the Share Award Scheme, a trustee is appointed to acquire the Company’s own shares at The Stock Exchange of Hong Kong Limited.

The trustee shall hold such shares on trust for the eligible grantees until they are vested. When the relevant eligible grantee has satisfied all vesting conditions specified by the Board at the time of making the award and become entitled to the shares, the trustee shall transfer the relevant Awarded Shares to that grantee. For grantees who cease employment with the Group before vesting, the unvested shares are forfeited. The forfeited shares held by the trustee of the Share Award Scheme may be granted to other awardees after taking into consideration of the Board’s recommendation.

The trustee started to acquire the Company’s share during the year. There was no awarded shares granted, forfeited or vested during the period.

The number of shares acquired and the amounts paid for the acquisitions are presented below:

	Number of shares '000	Amount paid RMB'000
At 1 January 2019	–	–
Purchase during the period	2,216	2,080
Shares vested during the period	–	–
At 31 December 2019	2,216	2,080

The Group acquired 2,216,000 of its own shares through the trustee of the Share Award Scheme from open market from 3 January 2019 to 25 January 2019 at the average price of HK\$1.13. The total amount paid to acquire the shares was HK\$2,499,000 (equivalent to RMB2,080,000) and the balance was classified as “Shares held under share award scheme” in the reserve as at 31 December 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

26 Trade and bills payables

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade and bills payables	29,066	26,951

As at end of the reporting period, the ageing analysis of the trade and bills payables based on invoice date were as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Less than 30 days	21,592	20,028
31 to 90 days	3,103	3,727
91 to 180 days	2,291	1,830
181 to 365 days	271	464
Over 365 days	1,809	902
	29,066	26,951

The carrying amounts of trade payables approximate their fair values and are denominated in RMB.

27 Accruals and other payables

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Accrued employee benefit expenses	10,095	6,826
Land taxes, surcharges and other taxes payables	4,772	5,500
Other payables for purchases of property, plant and equipment	625	1,472
Others	7,107	5,365
	22,599	19,163

The carrying amounts of accruals and other payables are denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
RMB	20,846	17,603
HK\$	1,753	1,560
	22,599	19,163

The carrying amounts of accruals and other payables approximate their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

28 Bank and other borrowings

	As at 31 December 2019			As at 31 December 2018		
	Current portion RMB'000	Non-current portion RMB'000	Total RMB'000	Current portion RMB'000	Non-current portion RMB'000	Total RMB'000
Bank borrowings	176,571	–	176,571	103,948	27,535	131,483
Other loan	26,874	–	26,874	26,286	–	26,286
	203,445	–	203,445	130,234	27,535	157,769

The Group's bank and other borrowings were repayable as follows:

	2019			2018		
	Bank borrowings RMB'000	Other loan RMB'000	Total RMB'000	Bank borrowings RMB'000	Other loan RMB'000	Total RMB'000
Within 1 year	176,571	26,874	203,445	103,948	26,286	130,234
Between 1 and 2 years	–	–	–	27,535	–	27,535
	176,571	26,874	203,445	131,483	26,286	157,769

The carrying amounts of bank and other borrowings approximate their fair values and are denominated in RMB. The weighted effective interest rates of bank and other borrowings were 5.19% per annum during the year (2018: 5.95% per annum).

29 Convertible bonds

During financial year ended 31 December 2018, the Group issued a convertible bond with principal value of USD4,000,000 (equivalent to approximately RMB26,032,000) with interest of 6% per annum. The bond matures one year from the date of issue of bond at their principal value or can be converted into ordinary shares at the holder's option at rate HK\$1.58 per conversion share. The maximum number of ordinary shares to be converted to 19,696,202 shares.

During financial year ended 31 December 2018, the Group has redeemed all the outstanding amount of the USD9,000,000 convertible bond. The Group also exercised its early redemption rights under USD4,000,000 convertible bond issued in 2017 and redeemed all the outstanding amount during the year ended 31 December 2018. None of them was converted up to 31 December 2018.

	As at 31 December	
	2019 RMB'000	2018 RMB'000
As at 1 January	–	59,535
Fair value of convertible bond issued	–	26,032
Exchange difference on convertible bond	–	5,700
Redemption of convertible bonds	–	(91,267)
As at 31 December	–	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

30 Deferred tax liabilities

	Withholding income tax on profit to be distributed in future	
	2019 RMB'000	2018 RMB'000
As at 1 January	1,572	–
Charged to profit or loss	1,495	1,572
As at 31 December	3,067	1,572

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB2,771,000 (2018: RMB2,087,000) in respect of losses amounting to approximately RMB16,792,000 (2018: RMB12,650,000) that can be carried forward against future taxable income. Such tax losses have no expiry date.

31 Notes to the consolidated statement of cash flows

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Profit before income tax	225,021	200,380
Adjustments for:		
Interest income (Note 9)	(4,185)	(1,437)
Interest expenses (Note 9)	13,144	12,639
Transaction costs for issuance of convertible bonds (Note 9)	–	565
Transaction costs for bank borrowings (Note 9)	–	201
Loss on disposals of property, plant and equipment (Note 7)	1,265	37
Depreciation of property, plant and equipment (Note 7)	19,463	18,161
Depreciation of right-of-use assets (Note 7)	1,861	–
Amortisation of leasehold land and land use rights (Note 7)	–	1,688
Share-based compensation expenses (Note 8)	–	135
Fair value change on investment properties (Note 6)	4,164	(100)
Re-measurement on convertible bonds (Note 6)	–	4,973
Fair value change of the contingent consideration payables (Note 6)	(1,625)	(2,254)
Net impairment losses on financial assets (Note 7)	691	–
	259,799	234,988
Changes in working capital:		
Increase in restricted cash	(1,407)	–
Increase in inventories	(11,701)	(5,673)
Increase in trade receivables	(71,941)	(10,311)
Decrease in prepayments and other receivables	39,169	3,769
Increase/(decrease) in trade and bills payables	2,115	(1,135)
Increase/(decrease) in accruals and other payables	3,436	(2,273)
Increase in amount due to the non-controlling interest	103	–
Cash generated from operations	219,573	219,365

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

31 Notes to the consolidated statement of cash flows (continued)

(b) Reconciliation from loss on disposals of property, plant and equipment

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net book amounts	1,287	37
Net loss on disposals of property, plant and equipment	(1,265)	(37)
Proceeds from disposals of property, plant and equipment	22	–

(c) Net debt reconciliation

	Bank Borrowing payable after one year	Amount due to a substantial shareholder	Bank and other borrowing payable within one year	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	27,535	88,826	130,234	–	246,595
Reclassification	(27,535)	–	27,535	831	831
Inception of leases	–	–	–	–	–
Financing cash flows	–	(70,039)	45,088	(66)	(25,017)
Foreign exchange	–	1,514	588	–	2,102
At 31 December 2019	–	20,301	203,445	765	224,511

	Bank borrowing payable after one year	Amount due to a substantial shareholder	Bank and other borrowing payable within one year	Convertible bond	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	–	–	81,677	59,535	141,212
Issuance of convertible bond	–	–	–	26,032	26,032
Financing cash flows	–	88,826	34,925	(90,540)	33,211
Gain on redemption	–	–	–	(727)	(727)
Debt acquired from business combination (Note 35)	27,535	–	11,353	–	38,888
Foreign exchange	–	–	2,279	5,700	7,979
At 31 December 2018	27,535	88,826	130,234	–	246,595

32 Contingencies

The Group did not have any material contingent liabilities as at 31 December 2019 and 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

33 Commitments

(i) Operating lease commitments

(a) As lessor

The Group leases its investment properties (Note 16) under operating lease arrangements with leases generally negotiated for terms ranging from three to five years. The terms of the leases generally also require the tenants to pay security deposits and may provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2019, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Not later than 1 year	101	141
Later than 1 year and no later than 5 years	–	355
	101	496

(b) As lessee

The Group leases offices under operating lease agreements. The lease terms are 2 years. The future aggregate minimum lease payments under the operating lease agreement are as follows:

	As at
	31 December 2018
	RMB'000
Not later than 1 year	352
Later than 1 year and no later than 5 years	–
	352

From 1 January 2019, the group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 14(b) for further information.

(ii) Capital commitments

Capital expenditure contracted for but not yet incurred and provided for as of 31 December 2019 amounted to RMB49,255,000 (2018: RMB12,813,000).

34 Related party balances and transactions

For the purposes of the consolidated financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

For the period from 1 January 2018 to 22 October 2018, the then ultimate and immediate holding company of the Company was Wealthy Active Limited ("Wealthy Active"), a company incorporated in the British Virgin Islands with limited liability. The then ultimate controlling shareholder was Mr. Yang Ziyuan ("Mr. Yang"). On 22 October 2018, Wealthy Active sold 263,914,740 shares to Sichuan Development International Holding Company Limited (四川發展國際控股有限公司) ("SDIH") which is a wholly owned subsidiary of Sichuan Development Holding Company Limited (四川發展(控股)有限責任公司) ("SDH"), a state-owned enterprise established by the Sichuan Provincial People's Government. After the disposal, the shareholding of Wealthy Active in the Company decreased from 46.2% to 19.2%. Accordingly, Wealthy Active ceased to be the ultimate or immediate holding company and Mr. Yang ceased to be the ultimate controlling shareholder of the Company. Wealthy Active and SDIH became the substantial shareholders of the Company from 22 October 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

34 Related party balances and transactions (continued)

- (a) The directors are of the view that the following companies were related parties that had balances with the Group during the years ended 31 December 2019 and 2018:

Name of the related parties	Principal business activities	Relationship with the Group
Wealthy Active Limited	Investment holding in British Virgin Islands	Substantial Shareholder
Sichuan Yizhan Enterprise Co., Ltd. (“四川怡展實業有限公司”)	Manufacturing and trading business in the PRC	Non-controlling interest of a subsidiary

(b) Balance with a related party

The Group had the following material non-trade balances with a related party:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Amount due to a substantial shareholder		
– Wealthy Active Limited	20,301	88,826
Interest paid to a substantial shareholder		
– Wealthy Active Limited	3,758	563
Amount due to the non-controlling interest		
– Sichuan Yizhan Industrial Co., Ltd.	103	–

As at 31 December 2019, amount due to a substantial shareholder was unsecured, with interest at Hong Kong Interbank Offered Rate (2018: 5.8% per annum) and repayable on demand (2018: with one year). The carrying amount of amount due to a substantial shareholder approximated its fair value and is denominated in HK\$.

As at 31 December 2019, amount due to the non-controlling interest was unsecured, interest-free and repayable on demand. The carrying amount of amount due to a substantial shareholder approximated its fair value and is denominated in RMB.

(c) Key management compensation

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Basic salaries, allowances and benefits in kind	4,620	3,555
Social security costs	67	67
Defined contribution – MPF	32	35
Share-based compensation expenses	–	13
	4,719	3,670

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

35 Business combination

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

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 share price of the Company at the consideration on the date of completion 31 January 2018 ("Completion Date") was HK\$1.38.

The actual number of Consideration Shares to be issued is subject to the production volume and revenue of Strong Won Group in the three years after the acquisition.

Based on the final 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.

	2018
	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
Contingent consideration payable	
At 31 January 2018	17,804
Fair value change of the contingent consideration payable (<i>Note a</i>)	(2,254)
At 31 December 2018 and 1 January 2019	15,550
Fair value change of the contingent consideration payable (<i>Note a</i>)	(1,625)
At 31 December 2019	13,925
Represented by:	
Current portion	6,963
Non-current portion	6,962
	13,925

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

35 Business combination (continued)

Note a:

The fair value of the contingent consideration arrangement as at 31 December 2019 amounted RMB13,925,000 (2018: RMB15,550,000), has been estimated by calculating the expected production volume and revenue of Strong Won Group. Contingent consideration payable at maximum of 17,188,000 new Shares are subject to the aggregate amount of production volume of the Strong Won Group and the total amount of revenue from its principal business during the period of three years commencing from the Completion Date.

	2018
	RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	69,982
Leasehold land and land use right	11,233
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 borrowing	(38,888)
Total identifiable net assets acquired	44,152
Add: Goodwill on business combination	1,104
	45,256

	2018
	RMB'000
Net cash outflow on acquisition of business	
Cash consideration paid	27,452
Cash and cash equivalents acquired	(198)
Total cash outflow	27,254

Note:

- (i) Goodwill on business combination

The Group recognised the goodwill of approximately RMB1,104,000 as the result of the business combination. The main reason giving rise to the goodwill is the synergy brought to the Group from the increased the production capacity on new and existing processed fruit products while the production base can also facilitate the Group in its warehousing and logistics arrangement for its own brand products in the central part of the PRC.

- (ii) Acquisition-related costs of RMB268,000 are included in administrative expenses in profit or loss in the financial period 31 December 2017 and 2018 respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

36 Statement of financial position and reserve movement of the Company

Statement of financial position of the Company

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investment in a subsidiary	–	–
Amount due from a subsidiary	220,703	268,559
	220,703	268,559
Current assets		
Cash and cash equivalents	687	3,913
	687	3,913
Total assets	221,390	272,472
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	168,437	207,383
Reserves	Note (a) (9,752)	3,709
Total equity	158,685	211,092
LIABILITIES		
Current liabilities		
Accruals and other payables	–	46
Bank and other borrowings	62,705	61,334
Total current liabilities	62,705	61,380
Total equity and liabilities	221,390	272,472

The statement of financial position of the Company was approved by the Board of Directors on 17 April 2020 and was signed on its behalf.

Mr. Yang Ziyuan
Director

Mr. Sun Xingyu
Director

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

36 Statement of financial position and reserve movement of the Company *(continued)*

(a) Reserve movement of the Company

	Capital reserve RMB'000	Share option reserve RMB'000	Share held under share award scheme RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2018	10,431	2,923	–	8,132	21,486
Loss for the year	–	–	–	(7,481)	(7,481)
Dividends paid relating to 2017	(10,431)	–	–	–	(10,431)
Employees share option scheme:					
– share-based compensation expenses	–	135	–	–	135
Release of reserve upon share options lapsed	–	(676)	–	676	–
At 31 December 2018	–	2,382	–	1,327	3,709
At 1 January 2019	–	2,382	–	1,327	3,709
Loss for the year	–	–	–	(11,381)	(11,381)
Acquisition of shares held under share	–	–	(2,080)	–	(2,080)
Release of reserve upon share options lapsed	–	(1,067)	–	1,067	–
At 31 December 2019	–	1,315	(2,080)	(8,987)	(9,752)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

37 Benefits and interests of directors (continued)

(a) Directors' and chief executive's emoluments (continued)

The remuneration of every directors and the chief executive is set out below: (continued)

For the year ended 31 December 2018:

Name	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Estimated money value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the company or its subsidiary undertaking RMB'000	Total RMB'000
Executive directors									
Mr. Yang Ziyuan	121	1,243	15	-	-	31	-	-	1,410
Mr. Sun Xingyu	121	87	14	-	-	21	-	-	243
Mr. Wang Hu (appointed on 22 October 2018)	-	-	-	-	-	-	-	-	-
Non-executive directors									
Ms. Chu Yinghong	121	-	-	-	-	-	-	-	121
Mr. Wong Yim Pan	121	-	-	-	-	-	-	-	121
Mr. Liu Zhumeng (appointed on 22 October 2018)	-	-	-	-	-	-	-	-	-
Independent and non-executive directors									
Mr. Liang Zhongkang	121	-	-	-	-	-	-	-	121
Mr. Tsang Yuen Wai	121	-	-	-	-	-	-	-	121
Ms. Hui Yung Yung	121	-	-	-	-	-	-	-	121

There was no arrangement during the years ended 31 December 2019 and 2018 under which a director waived or agreed to waive any remuneration, and no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

37 Benefits and interests of directors *(continued)*

(b) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2018: nil).

(c) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the year (2018: nil).

(d) Consideration provided to third parties for making available directors' services

No payment was made to the former employer of directors for making available the services of them as a director of the Company (2018: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2018: nil).

38 Subsequent event

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country.

Due to the related precautionary and control measures taken place, the Group postponed the resumption of production in Shandong and Hubei factories after the Chinese New Year. Therefore, the Group's production and operation in the PRC were suspended in late January 2020 but have gradually resumed since late February 2020.

The Group has actively coordinated relevant resources and adjusted production and operation arrangements accordingly. The Group has also paid close attention to the development of COVID-19 outbreak and kept evaluating the impact on the financial position, cash flows and operating results of the Group. As at the date of this annual report, the Group was not aware of any material adverse effects on the consolidated financial statements as a result of the COVID-19 outbreak. However, if the COVID-19 outbreak continues for a longer period of time, the financial performance of the Group for the year ending 31 December 2020 might be affected but the financial impact cannot be reasonably estimated at this stage.

Five-Year Financial Summary

A summary of the results and of the assets, equity and liabilities of the Group for the last five financial years is as follows.

RESULTS

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	1,062,767	940,507	745,541	653,474	553,618
Profit before tax	225,021	200,380	160,539	166,358	129,017
Income tax expense	(55,960)	(52,853)	(37,258)	(37,582)	(32,100)
Profit for the year	169,061	147,527	123,281	128,776	96,917

ASSETS AND LIABILITIES

	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Assets					
Non-current assets	428,918	419,552	345,525	321,388	232,314
Current assets	762,933	670,270	492,635	374,310	354,251
Total assets	1,191,851	1,089,822	838,160	695,698	586,565
Equity and liabilities					
Total equity	894,102	766,067	653,912	566,160	489,282
Non-current liabilities	10,384	43,085	–	13,677	–
Current liabilities	287,365	280,670	184,248	115,861	97,283
Total liabilities	297,749	323,755	184,248	129,538	97,283
Total equity and liabilities	1,191,851	1,089,822	838,160	695,698	586,565

Corporate Information

Board of Directors

Executive Directors

Mr. Yang Ziyuan (*Chairman and Chief Executive Officer*)
Mr. Sun Xingyu
Mr. Wang Hu

Non-executive Directors

Ms. Chu Yinghong
Mr. Wong Yim Pan
Mr. Liu Zhumeng

Independent Non-executive Directors

Mr. Liang Zhongkang
Prof. Lu Yuanping (*appointed on 27th June 2019*)
Mr. O'Yang Wiley (*appointed on 11th November 2019*)
Mr. Tsang Yuen Wai (*resigned on 11th November 2019*)
Ms. Hui Yung Yung Janet (*resigned on 27th June 2019*)

Audit Committee

Mr. O'Yang Wiley (*Chairman*) (*appointed on 11th November 2019*)
Mr. Liang Zhongkang
Prof. Lu Yuanping (*appointed on 27th June 2019*)
Mr. Tsang Yuen Wai (*resigned on 11th November 2019*)
Ms. Hui Yung Yung Janet (*resigned on 27th June 2019*)

Nomination Committee

Mr. Yang Ziyuan (*Chairman*)
Mr. Wang Hu
Mr. Liang Zhongkang
Prof. Lu Yuanping (*appointed on 27th June 2019*)
Mr. O'Yang Wiley (*appointed on 11th November 2019*)
Mr. Tsang Yuen Wai (*resigned on 11th November 2019*)
Ms. Hui Yung Yung Janet (*resigned on 27th June 2019*)

Remuneration Committee

Mr. Liang Zhongkang (*Chairman*)
Mr. Yang Ziyuan
Prof. Lu Yuanping (*appointed on 27th June 2019*)
Mr. O'Yang Wiley (*appointed on 11th November 2019*)
Mr. Tsang Yuen Wai (*resigned on 11th November 2019*)
Ms. Hui Yung Yung Janet (*resigned on 27th June 2019*)

Strategic Development Committee

Mr. Yang Ziyuan (*Chairman*)
Mr. Sun Xingyu
Ms. Chu Yinghong
Mr. Wong Yim Pan
Mr. Liang Zhongkang
Mr. Liu Zhumeng
Mr. Ho Ho Tung Armen

Company Secretary

Mr. Ho Ho Tung Armen

Authorised Representatives

Mr. Sun Xingyu
Mr. Ho Ho Tung Armen

Principal Place of Business in China

Middle Phoenix Street
Hedong District
Linyi City, Shandong Province
The PRC

Principal Share Registrar and Transfer Office and Registered Office in the BVI

Conyers Trust Company (BVI) Limited
Commerce House
Wickhams Cay 1
P.O. Box 3140, Road Town
Tortola
British Virgin Islands
VG1110

Principal Place of Business in Hong Kong

Unit 605, 6th Floor
Beautiful Group Tower
74-77 Connaught Road Central
Central
Hong Kong

Branch Share Registrar and Transfer Office Hong Kong

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

Legal Adviser as to Hong Kong Law

Raymond Siu & Lawyers
Unit 1802, 18th Floor
Ruttonjee House
11 Duddell Street Central
Hong Kong

Legal Adviser as to PRC Law

Jingtian & Gongcheng
34/F., Tower 3
China Central Place
77 Jianguo Road
Chaoyang District
Beijing 100025
the PRC

Principal Bankers

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China Limited
Bank of China Limited
Agricultural Bank of China Limited
Linshang Bank Co., Limited
Hubei Dangyang Rural Commercial Bank Limited
Wuhan Rural Commercial Bank Co., Limited

Auditor

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22nd Floor, Prince's Building
Central
Hong Kong

Company's Website

<http://www.tianyuninternational.com>

Enquiries

info@tianyuninternational.com

Stock Code

6836